Translation for reference only

Ticker Code: 4507

To All Shareholders

June 5, 2012

Notice of Convocation of the 147th Annual General Meeting of Shareholders

The 147th Annual General Meeting of Shareholders will be convened at the time and location listed below. On behalf of the directors of the Company, we cordially invite you to attend this shareholders' meeting. If you are unable to attend, you can exercise your voting rights with the proxy form on the back of this notice. If you wish to vote by using the proxy form, you are kindly requested to take the time to review the reference information provided below and exercise it by 5:00 p.m., Tuesday June 26, 2012.

Yours faithfully,

Isao Teshirogi
President and Representative Director
Shionogi & Co., Ltd.
1-8 Doshomachi 3-chome, Chuo-ku, Osaka 541-0045, Japan

Annual General Meeting of Shareholders

1. **Date and time:** **10:00 a.m., Wednesday, June 27, 2012**
2. **Location:** **Third-floor hall, Shionogi Head Office**
   1-8 Doshomachi 3-chome, Chuo-ku, Osaka, Japan
3. **Agenda:**

   Items to report:

   1. The Business Report, the Consolidated Financial Statements and the Non-Consolidated Financial Statements for the 147th Fiscal Term (year ended March 31, 2012)
   2. The Audit Report of the Consolidated Financial Statements for the 147th Fiscal Term (year ended March 31, 2012) by the Accounting Auditor and the Board of Corporate Auditors

   Items for resolution:

   Proposal No. 1: Appropriation of Surplus
   Proposal No. 2: Election of Five (5) Directors
   Proposal No. 3: Election of Two (2) Corporate Auditors
   Proposal No. 4: Payment of Bonuses to Directors

4. **Exercise of voting rights:**
   1. Exercise of voting rights by mail
      If you wish to vote by mail, you are kindly requested to indicate your consent or refusal on the proxy form and return it by 5:00 p.m., Tuesday, June 26, 2012.

2. Exercise of voting rights by Internet

   If you wish to vote by Internet, you are kindly requested to take the time to review the reference information “Procedures on Exercise of Voting Rights through the Internet etc.” provided on page 54. Please indicate your consent or refusal on the proxy form and submit it by 5:00 p.m., Tuesday June 26, 2012.[1]

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If you intend to exercise your voting rights in person, you are kindly requested to hand in your proxy form at the reception desk when you arrive at the Annual General Meeting of Shareholders.
Please note that if any revisions are made to the contents of the business report, the consolidated financial statements, the non-consolidated financial statements and the referential documents concerning the exercise of voting rights that are attached to this Notice of Convocation, the revised contents will be posted on our Internet website (http://www.shionogi.co.jp/).

[1] Japan Standard Time

(Appended documents)

Business Report

Fiscal 2011 (Year ended March 31, 2012)

1. Overview of Operations

(1) Business Operations and Results

In the pharmaceutical industry, international competition is intensifying as operations globalize. Major European and North American pharmaceutical companies are advancing aggressively into markets in Japan, emerging countries in Asia and elsewhere, while Japanese pharmaceutical companies are accelerating business development in Europe, North America and emerging countries. In these circumstances, the target of research and development is shifting away from blockbuster markets with many patients centered on lifestyle diseases toward creating pharmaceuticals for specialty markets, which are therapeutic areas with fewer patients and unmet medical needs (such as medical conditions without effective treatments). Pharmaceutical companies that can quickly identify unmet medical needs and continuously deliver innovative pharmaceuticals to the patients who need them will be able to lead the global pharmaceutical industry in the future.

In this business environment, net sales decreased year on year. Sales of prescription drugs in Japan increased, but sales in the United States decreased substantially due to increases in the allowance for sales returns and the provision to the reserve for Medicaid rebates, which are charged to pharmaceutical companies under the U.S. system of healthcare subsidies for low-income patients. However, operating income and ordinary income increased slightly due to factors including reduced sales costs as a result of the Great East Japan Earthquake and Groupwide expense reduction activities aimed at increasing productivity. Net income increased substantially year on year absent extraordinary losses totaling ¥18.3 billion in the previous fiscal year that included loss on disaster due to the Great East Japan Earthquake, business structure improvement expenses and impairment loss in U.S. operations.

The Great East Japan Earthquake that occurred in March 2011 significantly impacted the Group, including production activities at the Kanegasaki Plant in Iwate Prefecture and sales activities in East Japan. Recovery was largely complete about six months after the earthquake as a result of Groupwide efforts to quickly restore operations.

(Billions of yen; %)

	FY2011	YoY Change	YoY Change (%)
Net Sales	267.3	(15.1)	(5.3)
Operating Income	47.0	0.1	0.2
Ordinary Income	46.1	0.9	2.0
Net Income	27.1	7.1	35.3

1)Sales

Net sales decreased 5.3 percent year on year to ¥267.3 billion.

(Billions of yen; %)

	FY2010	FY2011	YoY Change	YoY Change (%)
Net Sales	282.4	267.3	(15.1)	(5.3)
Domestic sales of prescription drugs	158.9	164.4	5.5	3.4
Export/Overseas subsidiaries	37.4	17.0	(20.4)	(54.6)
Shionogi Inc.	27.0	5.8	(21.2)	(78.4)
C&O	—	1.9	1.9	—
Royalty income	68.9	68.7	(0.2)	(0.4)
Crestor	64.2	64.7	0.5	0.8

1. Domestic Sales of Prescription Drugs

Sales of eight strategic products centered on anti-hyperlipidemia drug Crestor, anti-hypertension drug Irbetan, and anti-depressant drug Cymbalta increased 25.6 percent year on year to ¥73.2 billion, which compensated for the lower sales of existing products and contributed to the overall increase in domestic sales.

2. Exports and Overseas Subsidiaries

At Shionogi Inc., actual first quarter product returns exceeded the initially estimated allowance. Shionogi Inc. took this opportunity to significantly revise its assumptions for sales deductions, including revising the process for calculating the necessary allowance for product returns in the future and recalculating Medicaid rebates.

As a result, increases in the allowance for sales returns and the provision to reserve for Medicaid rebates increased sales deductions, which was a factor in the decrease in sales. However, these revisions provided the necessary reserves to deal with changes in U.S. operations.

In addition, on October 12, 2011 Shionogi completed the acquisition of China-based pharmaceutical company C&O Pharmaceutical Technology (Holdings) Limited (C&O), which contributed to consolidated results in the fiscal year ended March 31, 2012.

3. Royalty Income

AstraZeneca's global sales of Crestor expanded steadily in 2011. However, royalty income from Crestor has only increased slightly in yen terms because of the appreciation of the yen. Total royalty income decreased slightly year on year to ¥68.7 billion.

2) Operating Income

Operating income increased 0.2 percent year on year to ¥47.0 billion. Gross profit decreased 5.5 percent year on year due to factors including sales deductions at Shionogi Inc. and the reduced profitability of exports due to factors such as the strong yen. Selling and administrative expenses decreased 13.5 percent because of factors including the 15-month period for Shionogi Inc. in the fiscal year ended March 31, 2011 to align its fiscal year with Shionogi & Co., Ltd.; reduced selling expenses in the first half of the fiscal year ended March 31, 2012 because of the Great East Japan Earthquake; and Groupwide expense reduction activities. As a result, selling, general and administrative expenses decreased 7.3 percent, and operating income increased slightly.

3) Ordinary Income and Net Income

Ordinary income increased 2.0 percent year on year to ¥46.1 billion because of income including subsidy income associated with environmental protection measures at the new research facility. Net income increased 35.3 percent to ¥27.1 billion because extraordinary losses associated with the earthquake and U.S. operations decreased year on year.

(2) Capital Investment

Shionogi Group capital investment in the fiscal year ended March 31, 2012 totaled ¥13.2 billion. Aggressive investment centered on research facility expansion, including the construction of the new research facility at the Shionogi Pharmaceutical Research Center (SPRC) and a facility for producing active beta-lactam ingredients for clinical trials at the Kanegasaki Plant.

(3) Fund-raising

The Shionogi Group conducted no fund-raising of note during the fiscal year ended March 31, 2012.

■Research and Development Activities and In-Licensing

The Shionogi Group aims to achieve world-class research productivity and to quickly supply pharmaceuticals to global markets in conducting research and development activities. The Group promptly identifies unmet medical needs and deploys various technologies including small molecular drug discovery, one of the Shionogi Group's strengths, to continuously supply innovative pharmaceuticals to patients.

1) Research Activities

In July 2011, the Shionogi Group completed its core drug discovery research facility on the grounds of the SPRC in Toyonaka City, Osaka Prefecture. The new facility consolidates drug discovery functions previously dispersed among four research facilities in Osaka and Shiga prefectures. The Group aims to discover innovative new drugs at the SPRC by further strengthening cooperation in its organization and achieving top-class research productivity in fulfilling its deep commitment to "providing even better pharmaceuticals worldwide from Osaka."

2) Development Activities

In February 2012, the Shionogi Group established a wholly owned subsidiary, Shionogi Limited, in London, United Kingdom as a development base in Europe. It complements bases in Japan and the United States, enabling faster and more efficient development by selecting the region for conducting clinical trials from regions worldwide depending on the stage.

Progress in main clinical development activities as of March 31, 2012 was as follows.

1. Approval

【Product Name 】	Category (Administration)	Indication	Country: Period
【Finibax®】	Carbapenem antibiotic (Injection)	Severe infection (Additional dosage and Administration regimen)	Japan: April, 2011
【OxiFast®】	Oxycodon Hydrochloroide hydrate (Injection)	For the treatment of moderate to severe pain in patients with cancer pain	Japan: January, 2012
【Cymbalta®】	Duroxetine hydrochloride (Oral)	Diabetic peripheral neuropathic pain (Additional indication)	Japan: February, 2012

2. NDA Submission

【Product Name 】 (General name)	Category (Administration)	Indication	Country: Period
【Finibax®】	Carbapenem antibiotics (Injection)	Pediatric infection	Japan: August, 2011
(Ospemifene)	Selective estrogen receptor modulator (Oral)	Post-menopausal vaginal atrophy	USA: NDA submission in preparation

3. Clinical Testing Initiated and in Progress

Code No. (General Name)	Category (Administration)	Indication	Country/Region: Stage
S-349572 （Dolutegravir）	Integrase inhibitor (Oral)	HIV infection	Global: Phase III
S-474474	Angiotensin receptor antagonist/diuretic combination (Oral combination)	Hypertension	Japan: Phase III
S-555739	Prostaglandin D2 receptor antagonist (Oral)	Allergic disease	Japan: Phase IIb USA: Phase I
S-2367 (Velneperit)	Neuropeptide Y Y5 receptor antagonist (Oral)	Obesity	Japan: Phase IIb
S-297995 (Naldemedine)	Peripheral opioid receptor antagonist (Oral)	Alleviation of opioid-induced adverse effect	Japan & USA: phase IIb
S-707106	Insulin sensitizer (Oral)	Type 2 Diabetes	USA: Phase IIa
S-288310	Cancer peptide vaccine (Injection)	Bladder cancer	Asia: Phase I/II
S-488410	Cancer peptide vaccine (Injection)	Esophageal cancer	Japan: Phase I/II
S-488210	Cancer peptide vaccine (Injection)	Head and neck squamous cell carcinoma	Europe: Phase I/II
S-646240	Peptide vaccine for age-related macular degeneration (Injection)	Age-related macular degeneration	Japan: Phase IIa
S-524101	Sublingual tablet of house-dust mite allergen extracts for immunotherapy	Allergic rhinitis caused by house-dust mite allergen	Japan: Phase I
S-117957	Analgesic agent for neuropathic pain (Oral)	Neuropathic pain	USA: Phase I (co-development with Purdue)
S-877489	Central nervous system Stimulant (Oral)	Attention deficit hyperactivity disorder (ADHD)	USA: Phase I (co-development with Shire)
S-877503	Non-central nervous system stimulant (Oral)	Attention deficit hyperactivity disorder (ADHD)	Japan: Phase I (co-development with Shire)
S-649266	Cephem antibiotics (Injection)	Bacterial infection	Japan: Phase I (co-development with GSK)

3) In-Licensing

In November 2011, the Shionogi Group concluded a contract with Shire plc of Ireland to co-develop and co-commercialize in Japan two of Shire's drugs for attention deficit hyperactivity disorder (ADHD). Characterized by inattention and/or hyperactivity-impulsiveness that is more frequent and severe than is typically observed in individuals at a comparable age and level of development, ADHD interferes with daily life and academics. The Group will make a broad contribution to treating patients with central nervous system disorders by providing ADHD patients in Japan with the new treatment option.

(4) Challenges Ahead

The Shionogi Group is implementing its Third Medium-Term Business Plan for the five-year period from fiscal 2010 to fiscal 2014 in working to address the challenge posed by the significant decrease in Crestor royalty income that will occur in 2016 and 2017 and subsequently achieve growth.

Targets and Status of the Third Medium-Term Business Plan

(Billions of yen)

	Targets of the Medium-Term Business Plan	FY2011 Results	FY2009 Results (Results for the final year of the Second Medium-Term Business Plan)
Net sales	375	267.3	278.5
Domestic sales of prescription drugs	200	164.4	152.5
Royalty income	75	68.7	57.0
Overseas sales	87*	17.0	49.1
Operating income	110	47.0	52.4

*The target for overseas sales is calculated using an exchange rate of USD 1 = JPY 90.

1) Domestic Prescription Drugs and Restructuring Domestic Earnings

The biennial revision of NHI drug prices is one the changes affecting the domestic prescription drug operating environment. The Shionogi Group has created a portfolio of eight new strategic products that are not strongly affected by NHI drug price revisions because of the NHI Drug Price Premiums for Promoting the Creation of New Drugs and the Elimination of Off-Label Drug Use, and it has generated steady growth in net sales. Under the NHI drug price revisions of April 2012, the Shionogi Group received premiums for six drugs. The impact of downward drug price revisions on its portfolio was therefore comparatively light, averaging between 5.5 and 6 percent compared to the industry average of over 6 percent. The Shionogi Group will continue to concentrate sales resources on the eight strategic products while further reinforcing initiatives to raise productivity, specialize in new products and strengthen the hospital market in order to increase domestic sales.

The Shionogi Group can only achieve its income targets in fiscal 2014 if it creates a framework for generating target earnings excluding Crestor royalty income while continuing to invest aggressively in R&D. The Shionogi Group is therefore working to increase the sales of its eight strategic products as planned while continuously reducing cost of sales and selling, general and administrative expenses.

2) Stabilization and Expansion of Overseas Operations

The Shionogi Group acquired Sciele Pharma, Inc. (now Shionogi Inc.) in 2008 to enter the U.S. market, the world's largest. However, delays in expected product launches followed by intense competition with generic products, quality issues and other problems destabilized results in our U.S. operations from the fiscal year ended March 31, 2011. Consequently, Shionogi Inc. withdrew from the primary care market and implemented measures that included creating a new management framework and consolidating offices. In addition, Shionogi Inc. recognized impairment and provided for allowances and reserves as needed on an accounting basis, while implementing concerted measures such as strengthening its product portfolio by adding new products. These measures created a stable operating framework for the Shionogi Group's U.S. operations. The Group intends to grow its U.S. operations by launching the high-potential ospemifene as quickly as possible.

Moreover, the Shionogi Group moved to generate medium- and long-term growth by entering the Chinese market, which is expected to grow. The Group acquired C&O, a China-based pharmaceutical company that primarily sells antibiotics, and made it a consolidated subsidiary. In August 2011, China announced a new law governing the clinical use of antibiotics to promote the proper use of antibiotics in order to limit the creation of antibiotic-resistant pathogens. This caused the antibiotics market to contract. While these changes have impacted C&O's results, they have also created opportunities for the Shionogi Group's business in China because of its experience in promoting the proper use of antibiotics in Japan. The Group will work to increase its share in the Chinese antibiotics market through activities that center on providing appropriate information. Outside of the antibiotics market, the Group will work to launch a stroke medication (cerebroprotective drug), an antiulcer agent and other products to expand its business in China.

3) Investing in New Growth Drivers

The Shionogi Group sees continuous, global development of innovative new drugs as essential for countering the challenge of the expiration of its Crestor patents. The Third Medium-Term Business Plan therefore has the targets of globally developing five or more late-stage products (Phase IIb and beyond), and filing for overseas regulatory approval for four products created in Japan and receiving approval for at least one of them.

The Shionogi Group will continue to concentrate resources on globally developing in-house products such as an anti-HIV drug, a treatment for vulvar and vaginal atrophy, a drug for alleviating opioid-induced adverse effects, a treatment for allergic rhinitis, and a peptide vaccine for cancer, and launching them as quickly as possible.

4) Crestor Royalty Income

The patents of Crestor's strongest competitor product expired in various countries and generic products were launched. The Group forecasts continued growth in AstraZeneca's global Crestor sales because Crestor's share of prescriptions remains the same for the time being in the U.S. market, where the impact of generic products is considered pronounced. In addition, the Group expects sales to grow in markets outside of the United States. While exchange rates will affect royalty income, the Shionogi Group assumes that it will remain at a suitable level within a range that makes the numerical targets of the medium-term business plan achievable.

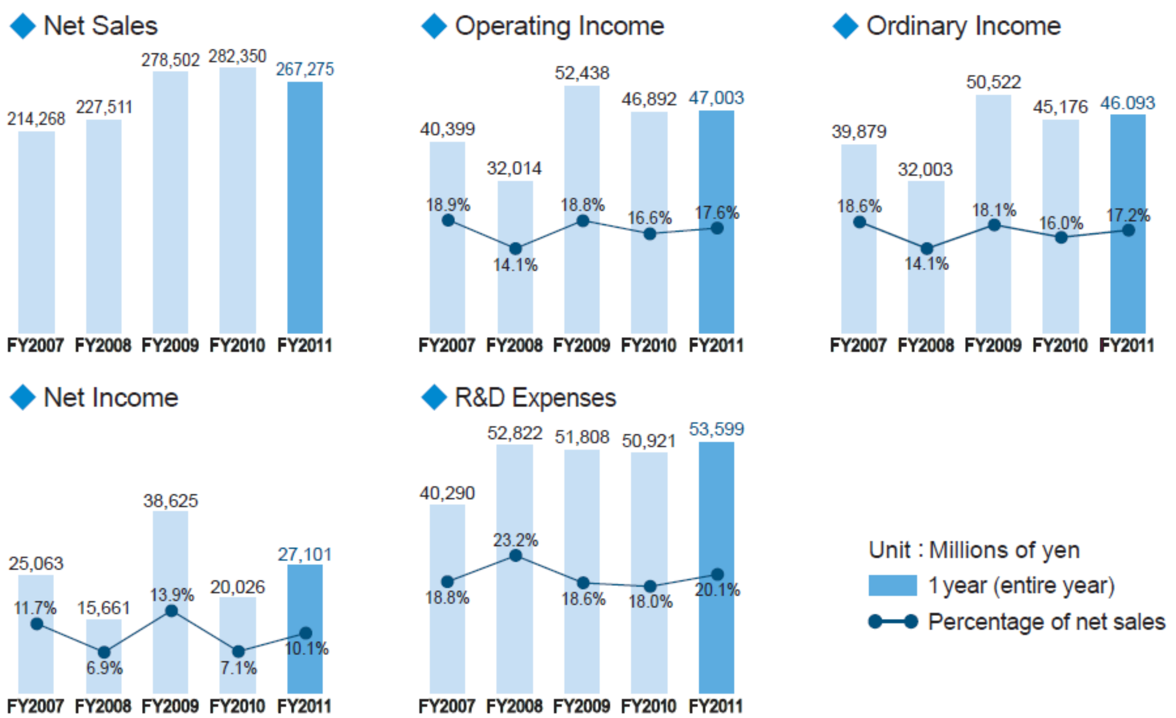
The Shionogi Group will execute the above initiatives to achieve the goals of the Third Medium-Term Business Plan and further enhance its presence as a pharmaceutical company by globally realizing its fundamental policy of "to strive constantly to provide medicine of the best possible kind essential for protection of the health of the people."

(5) Business Results and Financial Position

1. Business Results and Financial Position of the Corporate Group **(Millions of yen)**

Classification	FY2007	FY2008	FY2009	FY2010	FY2011
Net sales	214,268	227,511	278,502	282,350	267,275
Operating income	40,399	32,014	52,438	46,892	47,003
Ordinary income	39,879	32,003	50,522	45,176	46,093
Net income	25,063	15,661	38,625	20,026	27,101
R&D expenses	40,290	52,822	51,808	50,921	53,599
Total assets	413,703	501,852	540,761	523,242	522,161
Net assets	342,235	310,093	341,976	328,096	347,198
Earnings per share	yen 74.21	yen 46.75	yen 115.33	yen 59.80	yen 80.93
Net assets per share	1,020.31	924.43	1,019.71	979.69	1,027.83
Dividend per share	yen 22.00	yen 28.00	yen 36.00	yen 40.00	yen 40.00
Dividend payout ratio	% 29.6	% 59.9	% 31.2	% 66.9	% 49.4

〔Reference〕Consolidated Financial Indicators



2. Business Results and Financial Position of the Company **(Millions of yen)**

Classification	FY2007	FY2008	FY2009	FY2010	FY2011
Net sales	201,002	206,753	228,585	249,989	256,187
Operating income	36,397	36,236	49,256	60,435	62,875
Ordinary income	37,240	37,924	49,941	60,337	63,536
Net income	22,479	23,863	40,757	41,657	43,678
Total assets	400,154	521,184	553,013	565,170	575,447
Net assets	334,316	335,235	367,341	389,344	423,827
Earning per share	yen 66.56	yen 71.23	yen 121.70	yen 124.39	yen 130.42
Net assets per share	yen 997.59	yen 1,000.86	yen 1,096.85	yen 1,162.57	yen 1,265.37

(6) Significant Subsidiaries

Company Name	Paid-in Capital	Percentage of Ownership	Main Areas of Business
Shionogi Inc.	U.S. dollars 7.00	100.0	Pharmaceutical manufacturing and sales
Taiwan Shionogi & Co., Ltd.	Million NT dollars 92	100.0	Pharmaceutical manufacturing and sales
C&O Pharmaceutical Technology (Holdings), Limited	Thousand HK dollars 165,840	66.0	Pharmaceutical manufacturing and sales

Note: In September 2011, the Shionogi Group acquired a majority of the shares of C&O Pharmaceutical Technology (Holdings) Limited and made it a consolidated subsidiary.

(7) Main Operations of the Shionogi Group

The Shionogi Group mainly manufactures and sells pharmaceutical products.

(8) Main Offices, Plants, and Laboratories of the Shionogi Group

Main Offices, Plants, and Laboratories of the Company

		Name	Location
Domestic	Head Office and Branches	Head Office	Osaka, Osaka Prefecture
		Tokyo Branch Office	Shibuya-ku, Tokyo
		Nagoya Branch Office	Nagoya, Aichi Prefecture
		Fukuoka Branch Office	Fukuoka, Fukuoka Prefecture
		Sapporo Branch Office	Sapporo, Hokkaido
	Sites	Administration Service Center of Kuise Site	Amagasaki, Hyogo Prefecture
		Aburahi Site	Koka, Shiga Prefecture
	Plants	Settsu Plant	Settsu, Osaka Prefecture
		Kanegasaki Plant	Isawa-gun, Iwate Prefecture
	Research Laboratories	Shionogi Pharmaceutical Research Center	Toyonaka, Osaka Prefecture
		Institute for Medical Science	Settsu, Osaka Prefecture
Overseas (Note 2)		Shionogi Inc.	New Jersey, U.S.
		Taiwan Shionogi & Co., Ltd.	Taipei, Taiwan, R.O.C.
		C&O Pharmaceutical Technology (Holdings), Limited	Shenzhen, China

Notes:
1. In addition to the above list, the Company has business offices in every major city in Japan.
2. Bases in overseas subsidiaries

(9) Employees

1. Number of Employees of the Corporate Group

Classification	Number of Employees	Change from March 31, 2011
Pharmaceuticals and related businesses	6,132	+855

Notes:
1. The number of employees includes personnel that external companies assign to the Shionogi Group and excludes personnel that the Shionogi Group assigns to external companies and temporary personnel.
2. The number of employees increased by 855 compared with March 31, 2011 primarily because C&O Pharmaceutical Technology (Holdings) Limited became a consolidated subsidiary.

2. Number of Employees of the Company

Number of Employees	YoY Change	Average Age	Average Number of Years with the Company
4,181	+19	40.3	16.4

(10) Main Loans from Banks

(Millions of yen)

Loans from Banks	Loan Amount
Syndicated Loan	26,000
Mizuho Corporate Bank, Ltd.	10,000
Sumitomo Trust & Banking Co., Ltd.	10,000
Sumitomo Life Insurance Company	7,000
Nippon Life Insurance Company	5,000
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,000

Notes:
1. Sumitomo Mitsui Banking Corporation is the lead bank of the Syndicated Loan.
2. Sumitomo Trust & Banking Co., Ltd. changed its name to Sumitomo Mitsui Trust Bank, Limited in conjunction with the merger of subsidiary banks of Sumitomo Mitsui Trust Holdings, Inc. on April 1, 2012.

2. Stock Data

1) Number of shares authorized to be issued: 1,000,000,000

2) Number of shares issued: 351,136,165 (including 16,240,245 shares of treasury stock)

3) Number of shareholders: 44,594

4) Major shareholders

Name of Shareholder	Number of Shares Held	% of Total
	Thousands of shares	
Japan Trustee Services Bank, Ltd. (as a trustee)	21,346	6.37%
The Master Trust Bank of Japan, Ltd. (as a trustee)	20,286	6.05%
Sumitomo Life Insurance Company	18,604	5.55%
Nippon Life Insurance Company	13,138	3.92%
JP Morgan Chase Bank 385147	10,966	3.27%
SSBT 0D05 OMNIBUS ACCOUNT – TREATY CLIENTS	9,502	2.83%
Japan Trustee Services Bank, Ltd. (as a trustee for (i) Sumitomo Trust & Banking Co., Ltd. and (ii) retirement benefit of Sumitomo Mitsui Banking Corporation)	9,485	2.83%
Sumitomo Mitsui Banking Corporation	6,564	1.96%
State Street Bank and Trust Company	6,412	1.91%
Japan Trustee Services Bank, Ltd. (as a trustee)	5,512	1.64%

Notes:

1. The Company owns 16,240,245 shares of treasury stock but the Company is not included in the major shareholders listed above (top 10).
2. The percentage of total is calculated as the proportion of shares to 334,895,920 shares of total issued stock (excluding 16,240,245 shares of treasury stock).

3. Stock Acquisition Rights

1. Stock Acquisition Rights Issued as Remuneration to Company Directors as of March 31, 2012

	FY2011 New Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 11, 2011)
Date of issue resolution	June 24, 2011
Number of stock acquisition rights	252
Class and number of shares to be issued upon exercise of the stock acquisition rights	25,200 shares of common stock (100 shares per stock acquisition right)
Price per share to be issued upon exercise of stock acquisition rights	113,000 yen per stock acquisition right (Note 1)
Amount to be paid upon exercise of stock acquisition rights	100 yen per stock acquisition right
Stock acquisition rights exercise period	July 12, 2011 to July 11, 2041
Main conditions for exercising the stock acquisition rights	Note 2
Status of director holdings	Stock acquisition rights: 252 Number of underlying shares: 25,200 shares of common stock Rights holders: Three directors of the Company (excluding outside directors)

Notes:

1a. The issue price is the sum of the fair value of the stock acquisition rights (¥1,129 per share) on the allotment date and the amount to be paid upon exercise (¥1 per share) of the stock acquisition rights. The recipients of the allotted stock acquisition rights (stock acquisition rights holders) will have an amount equal to the issue price deducted from their remuneration as payment.

1b. The Company will not issue new shares upon exercise of the stock acquisition rights because it will use treasury stock for all shares issued to stock acquisition rights holders.

2a. During the stock acquisition rights exercise period, Company directors who are stock acquisition rights holders who cease to be a Company director may only exercise their stock acquisition rights during the 10-day period beginning the day immediately following the date of cessation (if the 10th day is a holiday, the next business day), and may only exercise their stock acquisition rights in full, in a single transaction.

2b. The heirs of a deceased stock acquisition rights holder may only exercise the stock acquisition rights inherited during the six-month period beginning the day immediately following the decedent's date of death.

2c. Other conditions for exercising the rights are stipulated in the Stock Acquisition Rights Agreement concluded between the Company and the stock acquisition rights holders.

2. Stock Acquisition Rights Issued as Remuneration to Company Employees during Fiscal 2011

	FY2011 Stock Acquisition Rights for Shionogi & Co., Ltd. (Issued July 11, 2011)
Date of issue resolution	June 24, 2011
Number of stock acquisition rights	270
Class and number of shares to be issued upon exercise of the stock acquisition rights	27,000 shares of common stock (100 shares per stock acquisition right)
Price per share to be issued upon exercise of stock acquisition rights	113,000 yen per stock acquisition right (Note 1)
Amount to be paid upon exercise of stock acquisition rights	100 yen per stock acquisition right
Stock acquisition rights exercise period	July 12, 2011 to July 11, 2041
Main conditions for exercising the stock acquisition rights	Note 2
Status of issuance to employees, etc.	Stock acquisition rights: 270 Number of underlying shares: 27,000 shares of common stock Issuees: Nine corporate officers of the Company (excluding corporate officers who concurrently serve as directors)

Notes:

1a. The issue price is the sum of the fair value of the stock acquisition rights (¥1,129 per share) on the allotment date and the amount to be paid upon exercise (¥1 per share) of the stock acquisition rights. The recipients of the allotted stock acquisition rights (stock acquisition rights holders) will have an amount equal to the issue price deducted from their remuneration as payment.

1b. The Company will not issue new shares because it plans to use treasury stock for all shares issued to stock acquisition rights holders upon exercise of the stock acquisition rights.

2a. During the stock acquisition right exercise period, Company corporate officers who are stock acquisition rights holders who cease to be a Company corporate officer may only exercise their stock acquisition rights during the 10-day period beginning the day immediately following the date of cessation or the date of expiration of the relevant employment contract (excluding post-retirement re-employment contracts), whichever is later (if the 10th day is a holiday, the next business day), and may only exercise their stock acquisition rights in full, in a single transaction. Company corporate officers who are stock acquisition rights holders who are elected as Company directors may not exercise their stock acquisition rights until they relinquish their directorship.

2b. The heirs of a deceased stock acquisition rights holder may only exercise the stock acquisition rights inherited during the six-months period beginning the day immediately following the decedent's date of death.

2c. Other conditions for exercising the rights are stipulated in the Stock Acquisition Rights Agreement concluded between the Company and the new stock acquisition rights holders.

4. Board Members

(1) Directors and Corporate Auditors

Position	Name	Areas of responsibility and other major posts
Representative Director and Chairman of the Board	Motozo Shiono	Chief Director of The Cell Science Research Foundation
President and Representative Director	Isao Teshirogi	
Director	Yasuhiro Mino	Executive Vice President and Senior Executive Officer
Director	Akio Nomura	Outside Director of The Royal Hotel, Ltd.
Director	Teppei Mogi	Partner of Oh-Ebashi LPC & Partners
Standing Corporate Auditor	Mitsuaki Ohtani	
Standing Corporate Auditor	Sachio Tokaji	
Corporate Auditor	Takeharu Nagata	Chairman of Keihanshin Building Co., Ltd. Outside Director of KOKUYO Co., Ltd.
Corporate Auditor	Shinichi Yokoyama	Representative Director and Chairman of Sumitomo Life Insurance Company Outside Auditor of Sumitomo Chemical Co., Ltd.
Corporate Auditor	Kenji Fukuda	Partner of DOJIMA Law Office

Notes:
1. Directors Akio Nomura and Teppei Mogi are Outside Directors stipulated in Section 15, Article 2 of the Companies Act.
2. Auditors Takeharu Nagata and Shinichi Yokoyama are Outside Corporate Auditors stipulated in Section 16, Article 2 of the Companies Act.
3. Directors Akio Nomura and Teppei Mogi have each submitted notification as independent directors as stipulated by Tokyo Stock Exchange Group, Inc. and Osaka Securities Exchange.
4. Director who retired during the fiscal year is as follows:
   Director Sachio Tokaji (Retired on June 24, 2011)
5. Auditor who retired during the fiscal year is as follows:
   Standing Corporate Auditor Satoshi Komatsu (Retired on June 24, 2011)
6. On April 1, 2012, Director Yasuhiro Mino retired as Executive Vice President and Senior Executive Officer.

(2) Amount of remuneration for Directors and Corporate Auditors

(Millions of yen, except for persons)

Category	Persons remunerated	Amount of remuneration paid				Note
		Base remuneration	Bonus	Stock options	Total	
Directors (outside directors among directors)	6 (2)	217 (24)	25 (－)	21 (－)	264 (24)	Total amount of Directors' remuneration is limited to an amount not exceeding 450 million yen per year by a resolution passed at the Annual General Meeting of Shareholders held on June 28, 2007. Total amount of Corporate Auditors' remuneration is limited to an amount not exceeding 120 million yen per year by a resolution passed at the Annual General Meeting of Shareholders held on June 24, 2011
Corporate Auditors (outside auditors among auditors)	6 (3)	87 (31)	— (－)	— (－)	87 (31)	
Total	12	305	25	21	352	

Notes:

1. Remuneration amount shown above includes bonuses for directors in the following amount, which is subject to approval at the 147th Annual General Meeting of Shareholders: ¥25 million (for 3 directors).
2. The above table includes one director and one corporate auditor who retired as of the close of the 146th Annual General Meeting of Shareholders held on June 24, 2011, and their respective remuneration amounts.
3. In addition to the above, the Company paid the retired director a retirement benefit of ¥11 million during fiscal 2011.

(3) Outside Board Members

1. Major Activities

Office	Name	Major Activities
Director	Akio Nomura	Mr. Nomura participated in the Board of Directors meetings (attended all 9 meetings) held during fiscal 2011 and he made statements on the execution of duties by the directors from the perspective of his long and successful career placing importance on the objectivity and impartiality of management.
Director	Teppei Mogi	Mr. Mogi participated in the Board of Directors meetings (attended all 9 meetings) held during fiscal 2011 and he made statements on the execution of duties by the directors from a perspective placing priority on the observance of social norms, laws and ordinances, etc.
Corporate Auditor	Takeharu Nagata	Mr. Nagata participated in the Board of Directors meetings (attended all 9 meetings) held during fiscal 2011 and he made statements on the execution of duties by the directors from the perspective of his long and successful career. He also participated in the Board of Corporate Auditors meetings (attended 7 of 8 meetings) held during fiscal 2011 where significant matters of audit were discussed, and made recommendations as necessary.
Corporate Auditor	Shinichi Yokoyama	Mr. Yokoyama participated in the Board of Directors meetings (attended all 9 meetings) held during fiscal 2011 and he made statements on the execution of duties by the directors from the perspective of his long and successful career. He also participated in the Board of Corporate Auditors meetings (attended all 8 meetings) held during fiscal 2011 where significant matters of audit were discussed, and made recommendations as necessary.
Corporate Auditor	Kenji Fukuda	Mr. Fukuda participated in the Board of Directors meetings held since he assumed office on June 24, 2011(attended all 7 meetings), and made statements on the execution of directors’ duties from a broad perspective based on professional expertise in laws and ordinances, etc.. He also participated in the Board of Corporate Auditors meetings held since he assumed office on June 24, 2011 (attended all 5 meetings), where significant matters of audit were discussed, and made recommendations as necessary.

2. Relationship of the Company with Companies where Outside Board Members Hold Major Posts

The Company does not have any relationship that should be indicated with the Royal Hotel, Ltd., where Director Akio Nomura serves as an outside director.

The Company does not have an advisory contract with Oh-Ebashi LPC & Partners, where Director Teppei Mogi is a partner. However, the Company receives advice from Oh-Ebashi LPC & Partners regarding certain specific cases involving international legal affairs.

The Company does not have any relationship that should be indicated with Keihanshin Building Co., Ltd. where Corporate Auditor Takeharu Nagata serves as the chairman, or with KOKUYO Co., Ltd., where he serves as an outside director.

Sumitomo Life Insurance Company, where Corporate Auditor Shinichi Yokoyama serves as the chairman of the board and representative director, holds 5.55 percent of the Company's stock (which is the proportion of shares to the 334,895,920 shares of total issued stock excluding the 16,240,245 shares of treasury stock of the Company), and the Company has a business relationship with Sumitomo Life Insurance Company including the borrowing of funds. However, the Company does not have any relationship that should be indicated with Sumitomo Chemical Co., Ltd., where he serves as an outside auditor.

The Company does not have any relationship that should be indicated with DOJIMA Law Office, where Corporate Auditor Kenji Fukuda is a partner.

3. Matters on Contract to Limit Liability

The Company has concluded contracts with all outside directors and outside corporate auditors to limit their liability stipulated in Section 1, Article 423 of the Companies Act to the amount stipulated in the relevant laws and ordinances under the condition that the requirements stipulated therein are fulfilled.

5. Independent Accounting Auditor

(1) Name of Independent Accounting Auditor

Ernst & Young Shin Nihon LLC

(2) Compensation Paid to Independent Accounting Auditor for the Fiscal Year Ended March 31, 2012

1. Compensation paid to the Independent Accounting Auditor for the fiscal year ended on March 31, 2012: ¥50 million
2. Total of cash and other financial profits payable by the Company and its subsidiaries to the Independent Accounting Auditor: ¥88 million

Note: The audit agreement entered into between the independent accounting auditors and the Company does not clearly distinguish the amount of the auditor's compensation being derived from the audit under the Companies Act and that being derived from the audit under the Financial Instruments and Exchange Law, and the two amounts cannot be substantially distinguished from each other. Therefore, the amount in 1 above includes both of these two kinds of amounts.

(3) Nature of Non-Audit Professional Services Provided by Independent Accounting Auditor

The Company has paid the independent accounting auditor compensation for services including support in implementing the International Financial Reporting Standards (IFRS), which is a service outside the scope of the duties stipulated in Paragraph 1, Article 2 of the Certified Public Accountants Law (non-audit services).

(4) Company Policy regarding Dismissal or Decision Not to Reappoint Independent Accounting Auditor

The Company will dismiss the Independent Accounting Auditor if the Company judges that the Independent Accounting Auditor falls within the scope of Paragraph 1, Article 340 of the Companies Act. In addition, the Company will decide on the reappointment or non-reappointment of the Independent Accounting Auditor considering the situation of the preparation for the items concerning the execution of the Independent Accounting Auditor's duties.

6. Systems and Policies of the Company

The systems to assure appropriate execution of the Directors' duties in accordance with the related regulations and the Articles of Incorporation; and other systems to assure appropriate business operations.

On April 23, 2012, at the meeting of the Board of Directors, the Company passed a resolution to amend the basic policy for construction of systems to assure appropriate business operations ("The Basic Policy for Construction of Internal Control System") as follows:

The Company will promote clear and reliable operations by sharing their philosophy and their sense of values contained in "Shionogi's Policy" among the Company, officers and employees and by execution of the Company's duties satisfying the requirements of "compliance".

For the purpose of enhancing effective execution, the company will construct the systems to assure appropriate business operations in accordance with the Companies Act and the Enforcement Regulations of the Companies Act as follows:

(1) A system to assure appropriate execution of the directors' duties in accordance with the related regulations and the Articles of Incorporation.

The Board of Directors will make decisions on material matters of management based on appropriate business judgments in accordance with the Board of Directors Regulations, and each director will supervise the execution of the other directors' duties and prevent the other directors' violation of the related laws, regulations and the Articles of Incorporation.

In the event that a director finds the instance of another directors' violation of the related laws, regulations and the Articles of Incorporation, such director will immediately report to the corporate auditors and the Board of Directors and correct such violation.

In order to establish proper corporate governance systems, the Company introduced outside directors to make decisions with a broader view of the matter taking into consideration the objective views of third parties including shareholders.

The outside directors recognize the corporate responsibility which the Company should achieve from their perspective as independent directors, and contribute to the improvement of management transparency.

In order to secure reliability of financial reports, the Board of Directors will prepare and operate the system constituted by evaluation, report and audit on the internal control for financial reporting.

The corporate auditors will audit the execution of duties by the directors, and the directors will co-operate in such audit.

The Company will constantly keep the officers and employees informed about "Shionogi's Policy" and "Shionogi's Action Guidelines" set forth as the Company's philosophy and "Shionogi's Behavior Charter" providing how the officers and employees should act, and the compliance committee presided by a representative director will establish and promote the measures for the compliance with the related laws, regulations and ethical behavior in its business operations.

Based on Shionogi's "Behavior Charter", the Company consistently and resolutely resists the influence of antisocial forces and precludes any connection with them.

(2) A system for storage and management of information related to execution of the directors' duties.

The Company has established a security system for the information related to execution of the directors' duties, including documents electronically recorded.

The minutes of the Board of Directors' meetings, the management meetings and the compliance committee meetings, and the documents on decisions approved by the president and representative director, etc., will be properly and strictly stored in the manner appropriate to the form they have been recorded in and will be accessible by directors and corporate auditors for the appropriate period in accordance with the related laws and regulations.

(3) A system and other rules for management of risk of loss.

Each division will understand the internal risk factors, and take an appropriate action for avoidance or decrease of such risks by means of countermeasures according to the degree of such risk.

Especially, countermeasures for material risks which may have an influence on the company's management will be discussed and determined at the meeting of the corporate executive committee and the responsible division will take appropriate action in cooperation with the related divisions based on such determination.

Moreover, with regard to emergency risks such as disasters, accidents and company scandals, etc., the Company enacted the "Crisis Management Policy" and defined the "Disaster Measures Outline", the "Pandemic Measures Outline" and the "Company Scandals Measures Outline" based on the policy, and the Company will promote crisis management while aiming to show respect for human life, be considerate of and contribute to regional communities and suppress derogation of corporate value.

The Internal Control Department (section for internal control) will verify the management system for various risks independently from the company's other divisions.

(4) A system to assure efficient execution of the directors' duties.

The Company has allocated the role of execution and supervision of operations, and for the purpose of the flexible operation, the corporate executive officer system was introduced.

The regularly (weekly)-held management meeting will fully discuss the material matters regarding the business operation, and the Board of Directors will make a decision based on the result of such deliberation.

The decision at the Board of Directors meeting and the results of deliberation at the management meeting will be communicated to the general manager of the related division allocated the role of execution of business operations, and such general manager will follow the necessary procedures for business operations in accordance with the regulations concerning allocation of responsibility and duties.

(5) A system to assure appropriate operation of the employees' business in accordance with the related laws, regulations and the Articles of Incorporation.

The Company will promote the measures for the compliance with the related laws, regulations and ethical behavior in its business operations mainly through the compliance committee.

A secretariat of the compliance committee has been established in the General Administration & Subsidiaries Management Department, and it will implement training and assist each division in risk management compliance.

In addition, to verify the effectiveness of its internal control system, the Company will enhance internal audits by the Internal Control Department to strengthen its monitoring capabilities, and will make full use of its internal reporting system to work for the early detection of misconduct and prevention of its recurrence.

(6) A system to assure appropriate operation of business by the corporate group comprised of the company and subsidiaries.

The Company and the group company will improve the value of the corporate group, and keep the group company informed about "Shionogi's Policy" and "Shionogi's Action Guidelines" in order to fulfill the corporate group's social responsibility.

Directors will receive reports on the business operations by group companies, and will properly manage and encourage group companies subsidiaries based on "Shionogi's Policy", "Shionogi's Action Guidelines", and the management plan.

Each company of the corporate group will promote the appropriate and efficient operation of business.

The corporate auditors and the Internal Control Department will inspect the contents of the business operations in order to confirm the appropriateness and effectiveness of the business operations by group companies.

(7) Matters regarding employees assigned to assist the corporate auditors' duties by the request from the corporate auditors, and matters regarding independence of such employees from the directors.

The Company will assign employees to assist the corporate auditors' duties according to the request from the corporate auditors.

The employees assigned will be independent from the directors.

(8) A system for reporting to the corporate auditors by directors and employees.

The corporate auditors will attend the material meeting such as the Board of Directors and the management meeting etc. and obtain the information relating to the business operations and management, and efficacy of the internal control.

The corporate auditors may directly instruct directors and corporate officers etc. to report on the business operations.

The directors or corporate officers will construct the system to inform the corporate auditors, either in writing or orally, of a fact that could cause substantial damage to the Company or group companies, a situation that markedly impairs the Company's reputation, and breaches of the law such as illicit or wrongful acts by the officers or employees.

(9) Other systems to assure effective audits by corporate auditors.

The corporate auditors will construct the system to improve upon the audit to make it more effective by cooperating with the accounting auditors and the Internal Control Department in conducting the audit as well as in advising and recommending, and by regularly holding opinion exchange meetings with the president and representative directors.

7. Other Material Matters

Legal Actions

In December 2007, the Company brought a patent infringement action jointly with AstraZeneca against seven generic drug companies (two other companies were added later) including Cobalt Pharmaceuticals, Inc. and Apotex, Inc., which had filed Abbreviated New Drug Applications (ANDAs) for a generic drug version of Crestor in the United States. The action sought in part to make the effective date of U.S. Food and Drug Administration (FDA) approval of the above generic drug ANDAs no earlier than the expiration date of the patent owned by the Company in the United States.

The trial was held from late February to early March 2010. In June 2010, the United States District Court for the District of Delaware found that the Company's patent is valid and enforceable, and ordered eight generic drug companies to prohibit their manufacture and distribution of said generic drugs prior to the expiration of the patent. In August 2010, seven generic drug companies appealed the above ruling to the United States Court of Appeals for the Federal Circuit. As a result, the Company has responded to this action, which is currently pending in court.

Further, in October 2010 in the United States District Court for the District of Delaware and again in November 2010 in the United States District Court for the District of Nevada, the Company brought a patent infringement action jointly with AstraZeneca against Watson Pharmaceuticals, Inc., which had filed an ANDA for a generic drug version of Crestor in the United States. The actions sought in part to make the effective date of U.S. Food and Drug Administration (FDA) approval of the above generic drug ANDA no earlier than the expiration date of the patent owned by the Company in the United States.

These infringement actions have been consolidated in the United States District Court for the District of Delaware and the discovery process is in progress.

In September 2009, the Company brought, in collaboration with AstraZeneca Canada, a patent infringement action against two companies, namely Novopharm Limited (currently Teva Canada Limited) and Apotex, Inc., which had filed ANDAs for a generic drug version of Crestor in Canada, in order to prevent said companies from selling generic drugs under the patent owned by the Company in Canada.

The Company has performed the necessary procedures in court, to request the relevant administrative authorities to stop the approval of ANDAs filed by the aforementioned two companies as well as seven other generic drug companies.

These actions ended with settlements with all the generic drug manufacturers that had submitted ANDAs.

In December 2011, the Company brought a patent infringement action in the United States District Court for the District of New Jersey jointly with Peninsula Pharmaceuticals, Inc. and Janssen Pharmaceuticals, Inc. against Sandoz Inc., which had filed an ANDA for a generic version of Doribax (product name in Japan: Finibax). Now pending, the action seeks in part to make the effective date of FDA approval of the above generic drug ANDA no earlier than the expiration date of the patent owned by the Company in the United States.

In May 2008, a suit was brought against the Company in Osaka District Court by Cellectis SA, which is the exclusive licensee of the patent owned by Institut Pasteur, claiming that the use of the technology relating to genetically modified mice for research infringes the patent and demanding that the Company pay approximately ¥970 million.

In February 2012, Cellectis abandoned its claims under this suit, which therefore ended with the Company having no liability to pay.

In January 2009, Shionogi Inc. brought a patent infringement action in the United States District Court for the District of Delaware jointly with Andrx Corp. against Lupin Ltd. and Mylan Inc., which had filed ANDAs for generic versions of Fortamet in the United States. The action sought in part to make the effective date of FDA approval of the above generic drug ANDA no earlier than the expiration date of the patent owned by Andrx Corp in the United States.

Lupin Ltd. and Mylan Inc. began selling generic versions of Fortamet even though the United States

District Court for the District of Delaware ruled in favor of Shionogi Inc.'s claim in September 2011. Shionogi Inc. therefore filed a preliminary injunction in United States District Court for the District of Delaware to halt sales of these generic versions in October 2011. The injunction was granted in December 2011. In response, Lupin Ltd. and Mylan Inc. filed for a retrial in United States District Court for the District of Delaware and filed an appeal with the Court of Appeals for the Federal Circuit. While the United States District Court for the District of Delaware reaffirmed its ruling in favor of Shionogi Inc. in February 2012, the Court of Appeals for the Federal Circuit dismissed Shionogi Inc.'s claim in April 2012.

Consolidated Balance Sheets

(As of March 31, 2012)

(Millions of yen)

Account	Amount	Account	Amount
Assets	**522,161**	**Liabilities**	**174,963**
Current Assets	**240,931**	**Current Liabilities**	**82,063**
Cash and deposits	18,427	Notes and accounts payable-trade	8,613
Notes and accounts receivable-trade	65,568	Current portion of long-term loans payable	14,000
Short-term investment securities	86,556	Current portion of bonds	10,000
Merchandise and finished goods	26,040	Income taxes payable	9,891
Work in process	12,662	Provision	12,128
Raw materials and supplies	11,418	Provision for bonuses	6,745
Deferred tax assets	9,044	Provision for sales returns	5,356
Other	11,231	Other provisions	25
Allowance for doubtful accounts	(17)	Other	27,430
		Noncurrent liabilities	**92,899**
Noncurrent assets	**281,230**	Bonds payable	20,000
Property, plant and equipment	**74,282**	Long-term loans payable	49,000
Buildings and structures, net	44,986	Deferred tax liabilities	7,729
Machinery, equipment and vehicles, net	7,271	Provision for retirement benefits	8,793
Land	9,856	Other	7,376
Other	12,167		
Intangible assets	**106,694**	**Net assets**	**347,198**
Goodwill	63,572	**Shareholders' equity**	**375,436**
Sales rights	36,663	Capital stock	21,279
Other	6,457	Capital surplus	20,227
Investments and other assets	**100,253**	Retained earnings	353,676
Investment securities	63,568	Treasury stock	(19,746)
Prepaid pension cost	22,809	**Accumulated other comprehensive income**	**(31,220)**
Other	13,973	Valuation difference on available-for-sale securities	7,729
Allowance for doubtful accounts	(97)	Deferred gains or losses on hedges	(141)
		Foreign currency translation adjustment	(38,809)
		Subscription rights to shares	58
		Minority interests	2,923
Total assets	**522,161**	**Total liabilities and net assets**	**522,161**

Consolidated Statements of Income

(Year ended March 31, 2012)

(Millions of yen)

Accounts	Amount	
Net sales		**267,275**
Cost of sales		**77,753**
Gross profit		**189,521**
Selling, general and administrative expenses		**142,518**
(R&D expenses)		53,599
Operating income		**47,003**
Non-operating income		**2,925**
Interest and dividends income	1,634	
Other	1,290	
Non-operating expenses		**3,834**
Interest expenses	1,330	
Other	2,504	
Ordinary income		**46,093**
Extraordinary income		**739**
Gain on sales of non-current assets	587	
Gain on sales of investment securities	152	
Extraordinary loss		**5,338**
Impairment loss	1,557	
Loss on penalty	1,345	
Loss on disaster	1,165	
Business structure improvement expenses	843	
Loss on valuation of investment securities	426	
Income before income taxes		**41,494**
Income taxes-current		20,339
Income taxes-deferred		(5,947)
Income before minority interests		**27,103**
Minority interests in income		1
Net income		**27,101**

Consolidated Statements of Changes in Net Assets

(Year ended March 31, 2012)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2011	21,279	20,227	339,970	(19,743)	361,733
Changes of items during the period					
Dividends from surplus			(13,395)		(13,395)
Net income			27,101		27,101
Purchase of treasury stock				(2)	(2)
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	—	13,705	(2)	13,703
Balance as of March 31, 2012	21,279	20,227	353,676	(19,746)	375,436

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance as of March 31, 2011	3,732	(288)	(37,081)	(33,637)	—	—	328,096
Changes of items during the period							
Dividends from surplus				—			(13,395)
Net income				—			27,101
Purchase of treasury stock				—			(2)
Net changes of items other than shareholders' equity	3,996	147	(1,727)	2,416	58	2,923	5,398
Total changes of items during the period	3,996	147	(1,727)	2,416	58	2,923	19,101
Balance as of March 31, 2012	7,729	(141)	(38,809)	(31,220)	58	2,923	347,198

Notes on Consolidated Financial Statements

1. Scope of consolidation
   Number of consolidated subsidiaries: 30
   Names of significant consolidated subsidiaries
   Shionogi Inc., Taiwan Shionogi & Co., Ltd., C&O Pharmaceutical Technology (Holdings), Limited
   (Newly consolidated) Subsidiaries newly consolidated: 1
   (Excluded) Subsidiaries excluded through merger: 5
2. Application of equity method
   (1) Number of unconsolidated subsidiaries and affiliates accounted for by the equity method
   No unconsolidated subsidiaries were accounted for by the equity method.
   Number of affiliate companies accounted for by the equity method: 4
   Shionogi-.ViiV Healthcare L.P. was accounted for by the equity method and its closing date differs from the consolidated closing date, therefore the financial statements in its fiscal year have been used. From the fiscal year ended March 31, 2012.
   (2) That portion of the net profit (loss) of the affiliates not accounted for by the equity method which was attributable to the Company in proportion to its shareholding ratio had no significant effect on the consolidated net income of the Company for the current period.
3. Closing date of consolidated subsidiaries
   Twenty four consolidated subsidiaries are overseas consolidated subsidiaries.
   Eight of these overseas consolidated subsidiaries close their accounts on December 31. In preparing the consolidated financial statements, the financial statements of these subsidiaries as of December 31 are used.
   Moreover, 10 of these overseas consolidated subsidiaries close their accounts on June 30. In preparing the consolidated financial statements, the financial statements of these subsidiaries as of December 31 are used.
   The necessary adjustments have been made to reflect any significant transactions occurring between this closing date and the date of the consolidated financial statements.
4. Significant accounting policies
   (1) Basis and method of valuation of significant assets
   1. Securities
   ・Held-to-maturity securities
   Amortized cost method
   ・Other securities
   Market value available
   At fair value, based on market price or other appropriate quotation as of period end (Unrealized gain is charged directly to net assets; cost of sales is accounted for by the moving average method.)
   Market value not available
   At cost determined by the moving average method
   (The securities based on the Financial Instruments and Exchange Law article 2.2 are evaluated at their net profit/loss (equity method)).
   2. Derivatives
   Market value method
   3. Inventories
   Inventories are mainly stated at the lower of cost, determined by the average method, or net selling value.
   (2) Depreciation method of significant depreciable assets
   1. Property, plant and equipment (excluding lease assets)
   Most items are depreciated by the declining balance method.
   Buildings (except for structures attached to the buildings) acquired subsequent to April 1, 1998 are depreciated by the straight-line method.
   2. Intangible assets (excluding lease assets)
   Most items are depreciated by the straight-line method
   Expenditures related to computer software intended for internal use are amortized over the useful life of the respective assets (in general, 5 years).
   3. Lease assets
   For lease transactions not involving transfer ownership, lease assets are depreciated over their useful lives using the straight-line method until the residual value reaches zero.
   However, the Company continues to account for finance lease transactions not involving the transfer of ownership that were concluded prior to the beginning of the first year when "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13; Business Accounting Council Committee No. 1, June 17, 1993; revised March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16; the Japanese Institute of Certified Public Accountants, Accounting Committee, January 18, 1994; revised March 30, 2007) were applied (April 1, 2008) in a manner similar to the accounting treatment for ordinary operating lease transactions.
   (3) Basis for providing significant allowances and provisions

1. Allowance for doubtful accounts

The allowance for doubtful accounts is provided to cover bad debt loss. The amount provided for general receivables is based on the historical rate of bad debts; for certain receivable accounts of considerable risk, the estimated uncollectible amount is provided as an additional allowance after examining specific possibility of collection.

2. Provision for bonuses

To prepare for payment of bonuses to employees, a provision for bonuses is provided based on the estimated amount of bonuses to be paid.

3. Provision for retirement benefits

To prepare for the payment of retirement benefits to employees, a provision for retirement benefits is provided based on the retirement benefit liabilities accrued and the expected value of the pension plan assets as of the period end. Prior service cost is amortized by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees. Actuarial gain or loss is proportionally amortized each year following the year in which the gain or loss is recognized principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

4. Provision for sales returns

The Company provides for loss on product returns in an amount equivalent to the income on the sale of products that the Company estimates will be returned. Certain consolidated subsidiaries provide for loss on product returns in an amount equivalent to the income on the sale of products that they estimate will be returned.

(4) Foreign currency translation

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates in effect as of the balance sheet date. Gain or loss on translation is credited or charged to income; however, assets and liabilities of consolidated overseas subsidiaries are translated into Japanese yen at the spot exchange rates in effect as of the balance sheet dates. Income and expenses of consolidated overseas subsidiaries are translated into Japanese yen at the average exchange rate during the period. Adjustments resulting from translating the foreign currency financial statements are reported as foreign currency translation adjustments in net assets in the consolidated balance sheets.

(5) Significant hedge accounting

1. Method of hedge accounting

In principle, deferred hedge accounting is used. Translation at the contract rate is applied in accounting for forward foreign exchange contracts that meet specified conditions. Hedges that meet conditions for the special treatment of interest-rate swaps are accounted for separately.

2. Hedging instruments and hedged items

・Hedging instruments: Forward foreign exchange contracts, currency options and interest-rate swaps

・Hedged items: Foreign currency-denominated claims and obligations, forecast transactions and debt

3. Hedging policy

The Company enters into forward foreign exchange contracts and uses currency options with the objective of hedging the risk of exchange rate fluctuations in connection with its foreign currency-denominated claims and obligations. Additionally, the Company also enters into interest-rate swaps with the objective of hedging the risk of interest rate fluctuations relating to its debt.

4. Methods for evaluating the effectiveness of hedging

The Company evaluates the effectiveness of its hedging practices by comparing the cash flow fluctuations for hedged items and hedging methods and using changes in both as a basis for its evaluation. However, evaluations concerning the effectiveness of forward foreign exchange contracts accounted for by the allocation method and interest rate swaps accounted for using special treatment are omitted.

(6) Goodwill and negative goodwill

Goodwill is amortized over 20 years using the straight-line method.

(7) Other significant accounting policies

Consumption tax

Amounts reflected in the consolidated financial statements are stated exclusive of consumption tax.

5. Changes in presentation of information

(Consolidated Balance Sheets)

Provision for sales returns was formerly included in other provisions in current liabilities, but is presented separately from the fiscal year ended March 31, 2012 because the amount became material.

Provision for sales returns was ¥1,775 million for the year ended March 31, 2011.

(Consolidated Statements of Income)

Loss on valuation of investment securities was formerly included in other in extraordinary loss, but is presented separately for the year ended March 31, 2012 because the amount became material.

Loss on valuation of investment securities was ¥172 million for the year ended March 31, 2011.

6. Additional information

(Application of Accounting Standard for Accounting Changes and Error Corrections)
The Company applied "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, December 4, 2009) for accounting changes or error corrections from the beginning of the fiscal year.

(Notes on Consolidated Balance Sheets)

1. All amounts are rounded down to the nearest million yen.
2. Pledged assets

Cash and deposits	7 million yen
Liabilities secured by the above assets	
"Other" of current liabilities	7 million yen

3. Accumulated depreciation amount of property, plant and equipment 181,372 million yen
4. Guaranteed liabilities 11 million yen

(Notes on Consolidated Statements of Income)

1. All amounts are rounded down to the nearest million yen.
2. Gain on sales of non-current assets
   Land 587 million yen
3. Impairment loss

The Shionogi Group recognized asset impairment as follows.

(Millions of yen)

Location	Application	Class	Amount
U.S.A	In-process research and development for compounds under development	Intangible assets (Other)	1,557

The Shionogi Group categorizes assets for business operations into groups that are based on the product lines used in management accounting, and categorizes rental and underutilized assets individually.

With respect to the exclusive prescription pharmaceuticals included in sales rights, the Shionogi Group set the amounts recoverable at zero in line with the decision to terminate sales and recognized an impairment loss for the unamortized balance.

With respect to those items relating to compound development that have been determined as having no future value included in in-process research and development, the Shionogi Group has set the amounts recoverable at zero and recognized an impairment loss for the unamortized balance.

4. Loss on disaster
   This expense is attributable to the impact of the Great East Japan Earthquake and represents the provision of an allowance to cover actual projected expenditure.
5. Business structure improvement expenses
   These expenses are attributable mainly to the reorganization of U.S. subsidiaries.

(Notes on Consolidated Statement of Changes in Net Assets)

1. Type and number of shares in issue and type and number of shares of treasury stock

(Shares)

	April 1, 2011	Increase	Decrease	March 31, 2012
Shares in issue Common stock	351,136,165	—	—	351,136,165
Total	351,136,165	—	—	351,136,165
Treasury stock Common stock	16,237,775	2,470	—	16,240,245
Total	16,237,775	2,470	—	16,240,245

Note: The increase in treasury stock (2,470 shares) reflects the purchase of odd-lot shares.

2. Dividends

(1) Dividend payments

Resolution	Category	Total dividends	Dividends per share	Dividend record date	Effective date
Annual General Meeting of Shareholders held on June 24, 2011	Common stock	6,697 million yen	20 yen	March 31, 2011	June 27, 2011
Meeting of Board of Directors held on October 31, 2011	Common stock	6,697 million yen	20 yen	September 30, 2010	December 1, 2011

(2) Dividends whose effective date is subsequent to March 31, 2012
The following is to be approved at the 147th Annual General Meeting of Shareholders to be held on June 27, 2012.

Resolution	Category	Total dividends	Dividend resource	Dividends per share	Dividend record date	Effective date
Annual General Meeting of Shareholders to be held on June 27, 2012	Common stock	6,697 million yen	Retained earnings	20 yen	March 31, 2012	June 28, 2012

(Notes on Financial Instruments)

1. Matters relating to financial instruments

The Shionogi Group manages surplus capital using financial instruments that carry little or no risk, and procures the required capital from bank loans and bond issues.

As for credit risk of customers concerning notes and accounts receivable-trade, the risk reduction is promoted through the periodical monitoring of counterparty status by the Financial & Accounting Department and related departments in accordance with the established internal procedures. For listed stocks among short-term and long term investments, the Shionogi Group examines their fair value quarterly.

Long-term loans and bonds are financed based on the business plan to undertake the manufacturing and sales of pharmaceuticals, and the Group performs the fixing of interest cost by carrying out interest rate swap transactions against the interest rate risk for a portion of the long term loans. For derivatives transactions, the Group uses ordinary transactions in accordance with established internal procedures.

2. Matters relating to fair value of financial instruments

Fair value and difference compared to the carrying value reported in the balance sheets as of March 31, 2012 were as follows. Note 2 provides information on financial instruments that are not included because of the difficulty of determining their fair value.

(Millions of yen)

	Carrying value reported in the balance sheets (*1)	Fair value (*1)	Difference
(1) Cash and deposits	18,427	18,427	—
(2) Notes and accounts receivable-trade	65,568	65,548	(19)
(3) Short-term and long term investment securities			
Bonds held to maturity	19	19	—
Other marketable securities	140,629	140,629	—
(4) Notes and accounts payable-trade	(8,613)	(8,613)	—
(5) Current portion of long-term loans payable	(14,000)	(14,004)	4
(6) Current portion of bonds	(10,000)	(10,009)	9
(7) Accrued income taxes	(9,891)	(9,891)	—
(8) Bonds payable	(20,000)	(20,359)	359
(9) Long-term loans payable	(49,000)	(49,865)	865
(10) Derivatives transactions (*2)	(478)	(478)	—

*1. Parentheses indicate liabilities.

*2. Derivative transactions are presented as net amounts receivable or payable, with net amounts payable in parentheses.

Notes:

1. Marketable securities, derivatives transactions and methods for estimating fair value of financial instruments

(1) Cash and deposits

All deposits are short-term. Therefore, carrying value is used for the fair value of deposits because these amounts are essentially the same.

(2) Notes and accounts receivable-trade

Fair value of receivables that require time for recovery is calculated as discounted present value using interest rates adjusted for credit risk and time until redemption for receivables grouped by period. Carrying value is used for the fair value of short-term receivables other than the preceding because these amounts are essentially equivalent.

(3) Short-term and long-term investment securities

Domestic certificates of deposit included in short-term investments are all short term. Therefore, carrying value is used for the fair value of deposits because these amounts are essentially the same. The fair value of short-term investments and investments in securities excluding domestic certificates of deposit is the price listed on securities exchanges or quoted by financial institutions for bonds and the price listed on securities exchanges for equities.

(4) Notes and accounts payable-trade

Carrying value is used for the fair value of these short-term investments because these amounts are essentially equivalent.

(5) Current portion of long-term loans payable / (9) Long-term loans payable

Fair value of these investments is estimated as discounted present value of total principal and interest using assumed interest rates for equivalent new loans. Interest rate swaps subject to special treatment are used for long-term floating-rate loans. “(10) Derivatives transactions” provides additional explanation. Principal and interest of the loans in which these interest rate swaps are embedded are discounted using a reasonable estimate of the interest rate on the loan at the time of issue.

(6) Current portion of bonds / (8) Bonds payable

The fair value of bonds issued by the Company is estimated based on market prices.

(7) Accrued income taxes

Carrying value is used for the fair value of these short-term investments because these amounts are essentially equivalent.

(10) Derivatives transactions

Fair value is estimated based on prices quoted by financial institutions.

The fair value of gain or loss resulting from forward foreign exchange contracts embedded in the payable subject to hedging is included in the fair value of the corresponding payable (refer to above (4)). The fair value of interest rate swaps subject to special treatment embedded in long-term loans subject to hedging is included in the fair value of the corresponding long-term loan (refer to above (9)).

2. Financial instruments for which determining fair value is difficult

(Millions of yen)

Classification	Carrying value reported in the balance sheets
Unlisted stocks	9,475

Financial instruments for which determining fair value is difficult because no market price is available are not included in “(3) Short-term and long-term investment securities”.

(Notes on Rental and Other Real Estate Assets)

1. Matters relating to the situation of rental and other real estate assets

The Shionogi Group has office buildings, etc. (including land) for lease in Tokyo and other areas.

In the fiscal year ended March 31, 2012, rental income from these rental and other real estate assets was ¥960 million (with rental revenues mainly recorded in net sales and rental expenses mainly recorded in cost of sales) and gain on sale of these assets was ¥587 million (recorded as extraordinary income).

2. Matters relating to the fair value, etc. of rental and other real estate assets

(Millions of yen)

Carrying value reported in the balance sheets	Fair value
5,391	19,257

Notes:

1. Carrying value reported in the balance sheets is the amount of accumulated depreciation deducted from the acquisition cost.
2. The fair value as of the period end is the amount calculated mainly based on "real estate appraisal standards" (including those amounts that were adjusted employing an index, etc.).

(Notes on Amounts per Share)

1. Net assets per share	1,027.83 yen
2. Earnings per share	80.93 yen
3. Earnings per share (diluted)	80.91 yen

(Notes on Business Combination)

Business combination through acquisition

(1) Overview of business combination
   1. Name and business of the acquired company
      Name of acquired company: C&O Pharmaceutical Technology (Holdings) Limited ("C&O")
      Business: Manufacture and sale of pharmaceuticals
   2. Main reasons for the business combination
      C&O is a pharmaceutical company involved in research, development, production, import and sale of pharmaceuticals in China. It has a sales network that supplies products with strong brands including Amoxycillin Capsules to 300,000 clinics, hospitals and pharmacies nationwide. C&O emphasizes the use of information-based marketing to sell new pharmaceuticals in-licensed from advanced countries, and is therefore skilled and experienced in developing new pharmaceuticals and dealing with the relevant authorities. The Shionogi Group decided that the acquisition of C&O was the best choice for entering the Chinese market because C&O's capabilities and management policy match the Shionogi Group's direction for business development in China.
   3. Date of business combination
      September 19, 2011 (date of acquisition of more than 50 percent of voting rights)
   4. Legal form of business combination
      Cash acquisition of shares
   5. Name of acquired company after combination
      C&O Pharmaceutical Technology (Holdings) Limited
   6. Percentage of voting rights acquired
      66.0 percent
   7. Main reason for deciding to acquire the company
      The Company had acquired more than 50 percent of C&O's voting rights with cash

(2) Period of the acquired company's financial results included in the consolidated statements of income
   From July 1, 2011 to December 31, 2011

(3) Breakdown of acquisition cost of the acquired company

(Millions of yen)

Acquisition price	13,639
Expenses directly required for acquisition	464
Acquisition cost of the acquired company	14,103

Acquisition using cash

(4) Goodwill recognized, reason for recognition, and amortization method and period
   (a) Goodwill recognized
      856 million HK dollars (8,196 million yen)
   (b) Reason for recognition
      Shionogi accounted for the difference between the acquisition cost and the net amount of assets and liabilities assumed as goodwill.
   (c) Amortization method and period
      Straight-line method over 20 years

(5) Summary of assets and liabilities assumed at date of business combination

	HK Dollars	Yen Equivalent
Current assets	520 million HK dollars	5,386 million yen
Non-current assets	1,408 million HK dollars	13,830 million yen
Total assets	1,928 million HK dollars	19,216 million yen
Current liabilities	141 million HK dollars	1,460 million yen
Long-term liabilities	62 million HK dollars	625 million yen
Total liabilities	204 million HK dollars	2,086 million yen
Minority interests	–	3,026 million yen

Non-consolidated Balance Sheets

(As of March 31, 2012)

(Millions of yen)

Account	Amount	Account	Amount
Assets	**575,447**	**Liabilities**	**151,620**
Current assets	**213,916**	**Current liabilities**	**65,739**
Cash and deposits	4,764	Accounts payable-trade	7,819
Accounts receivable-trade	60,716	Current portion of long-term loans payable	14,000
Short-term investment securities	86,522	Current portion of bonds	10,000
Merchandise and finished goods	22,181	Accounts payable-other	10,604
Work in process	12,462	Accrued expenses	4,500
Raw materials and supplies	10,738	Income taxes payable	9,171
Deferred tax assets	3,948	Deposits received	2,806
Short-term loans	4,816	Provision for bonuses	6,149
Other	7,771	Provision for directors' bonuses	25
Allowance for doubtful accounts	(6)	Provision for sales returns	120
		Other	543
Noncurrent assets	**361.531**	**Noncurrent liabilities**	**85,880**
Property, plant and equipment	**70,043**	Bonds payable	20,000
Buildings, net	41,008	Long-term loans payable	49,000
Structures, net	1,494	Deferred tax liabilities	7,218
Machinery and equipment, net	6,595	Provision for retirement benefits	8,757
Vehicles, net	10	Other	904
Tools, furniture and fixtures, net	5,166	**Net assets**	**423,827**
Land	9,856	**Shareholders' equity**	**416,187**
Lease assets, net	369	**Capital stock**	**21,279**
Construction in progress	5,540	**Capital surpluses**	**20,227**
Intangible assets	**5,616**	Legal capital surplus	20,227
Software	2,443	**Retained earnings**	**394,426**
Sales rights	840	Legal retained earnings	5,388
Other	2,333	Other retained earnings	389,038
Investments and other assets	**285,870**	Reserve for special depreciation	58
Investment securities	55,071	Reserve for advanced depreciation of noncurrent assets	2,574
Stocks of subsidiaries and affiliates	192,683	General reserve	338,645
Investments in other securities of subsidiaries and affiliates	7,562	Retained earnings brought forward	47,760
Prepaid pension cost	22,809	**Treasury stock**	**(19,746)**
Other	7,840	**Valuation and translation adjustments**	**7,581**
Allowance for doubtful accounts	(97)	Valuation difference on available-for-sale securities	7,722
		Deferred gains or losses on hedges	(141)
		Subscription rights to shares	58
Total assets	**575,447**	**Total liabilities and net assets**	**575,447**

Non-consolidated Statements of Income

(Year ended March 31, 2012)

(Millions of yen)

Account	Amount	
Net sales		**256,187**
Cost of sales		**74,529**
Gross profit, net		**181,658**
Selling, general and administrative expenses		**118,782**
(R&D expenses)		(51,783)
Operating income		**62,875**
Non-operating income		**4,718**
Interest and dividends income	1,988	
Other	2,729	
Non-operating expenses		**4,058**
Interest expenses	1,223	
Other	2,834	
Ordinary income		**63,536**
Extraordinary income		**1,928**
Gain on cancellation of shares due to absorption of a subsidiary	1,188	
Gain on sales of non-current assets	587	
Gain on exchange of investment securities	152	
Extraordinary loss		**1,573**
Loss on disaster	1,165	
Loss on valuation of investment securities	407	
Income before income taxes		**63,891**
Income taxes-current		19,970
Income taxes-deferred		(243)
Net income		**43,678**

Non-consolidated Statements of Changes in Net Assets

(Year ended March 31, 2012)

(Millions of yen)

	Shareholders' equity								
	Capital stock	Capital surpluses	Retained earnings					Treasury stock	Total shareholders' equity
		Legal capital surplus	Legal retained earnings	Other retained earnings					
				Reserve for special depreciation	Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward		
Balance as of March 31, 2011	21,279	20,227	5,388	79	2,211	313,645	42,819	(19,743)	385,907
Changes of items during the period									
Provision of reserve for special depreciation				5			(5)		—
Reversal of reserve for special depreciation				(26)			26		—
Provision of reserve for advanced depreciation of noncurrent assets					412		(412)		—
Reversal of reserve for advanced depreciation of noncurrent assets					(49)		49		—
Provision of general reserve						25,000	(25000)		—
Dividends from surplus							(13,395)		(13,395)
Net income							43,678		43,678
Purchase of treasury stock								(2)	(2)
Net changes of items other than shareholders' equity									
Total changes of items during the period	—	—	—	(21)	363	25,000	4,940	(2)	30,279
Balance as of March 31, 2012	21,279	20,227	5,388	58	2,574	338,645	47,760	(19,746)	416,187

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance as of March 31, 2010	3,725	(288)	3,436	—	389,344
Changes of items during the period					
Provision of reserve for special depreciation			—	—	—
Reversal of reserve for special depreciation			—	—	—
Provision of reserve for advanced depreciation of noncurrent assets			—	—	—
Reversal of reserve for advanced depreciation of noncurrent assets			—	—	—
Provision of general reserve			—	—	—
Dividends from surplus			—		(13,395)
Net income			—		43,678
Purchase of treasury stock			—		(2)
Net changes of items other than shareholders' equity	3,997	147	4,144	58	4,203
Total changes of items during the period	3,997	147	4,144	58	34,482
Balance as of March 31, 2011	7,722	(141)	7,581	58	423,827

Notes on Non-consolidated Financial Statements

(Significant Accounting Policies)

1. Basis and method of valuation of significant assets
   (1) Securities
      1. Stocks of subsidiaries and affiliates
         At cost determined by the moving average method
      2. Investments in other securities of subsidiaries and affiliates (securities for which Article 2.2 of the Financial Instruments and Exchange Law is deemed relevant)
         Securities for which Article 2.2 of the Financial Instruments and Exchange Law is deemed relevant are evaluated at their net profit/loss (equity method).
      3. Other securities
         Market value available
            At fair value, based on market price or other appropriate quotation as of period end (Unrealized gain is charged directly to net assets; cost of sales is accounted for by the moving average method.)
         Market value not available
            At cost determined by the moving average method
            (The securities based on the Financial Instruments and Exchange Law article 2.2 are evaluated at their net profit/loss (equity method).)
   (2) Derivatives
      Market value method
   (3) Inventories
      Inventories are stated at the lower of cost, determined by the average method, or net selling value.

2. Method of depreciation for noncurrent assets
   (1) Property, plant and equipment (excluding lease assets)
      Declining-balance method
      Buildings (except for structures attached to the buildings) acquired subsequent to April 1, 1998 are depreciated by the straight-line method.
   (2) Intangible assets (excluding lease assets)
      Straight-line method
      Expenditures relating to computer software intended for internal use are amortized over the useful life of the respective assets (in general, 5 years).
   (3) Lease assets
      For lease transactions not involving transfer of ownership, lease assets are depreciated over their useful lives using the straight-line method until the residual value reaches zero.
      However, the Company continues to account for finance lease transactions not involving the transfer of ownership that were concluded prior to the beginning of the first year when “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13; Business Accounting Council Committee No. 1, June 17, 1993; revised March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16; the Japanese Institute of Certified Public Accountants, Accounting Committee, January 18, 1994; revised March 30, 2007) were applied (April 1, 2008) in a manner similar to the accounting treatment for ordinary operating lease transactions.

3. Basis for providing significant allowances and provisions
   (1) Allowance for doubtful accounts
      The allowance for doubtful accounts is provided to cover bad debt loss. The amount provided for general receivables is based on the historical rate of bad debts; for certain receivable accounts of considerable risk, the estimated uncollectible amount is provided as an additional allowance after examining specific possibility of collection.
   (2) Provision for bonuses
      To prepare for payment of bonuses to employees, a provision for bonuses is provided based on the estimated amount of bonuses to be paid.
   (3) Provision for directors’ bonuses
      To prepare for payment of bonuses to directors and corporate auditors, a provision for directors’ bonuses is provided based on the estimated amount of bonuses to be paid.
   (4) Provision for sales returns
      The Company provides for loss on product returns in an amount equivalent to the income on the sale of products that the Company estimates will be returned.
   (5) Provision for retirement benefits
      To prepare for the payment of retirement benefits to employees, a provision for retirement benefits is provided based on the retirement benefit liabilities accrued and the expected value of the pension plan assets as of the period end. Prior service cost is amortized by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees. Actuarial gain or loss is proportionally amortized each year following the year in which the gain or loss is recognized, principally

by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

(6) Provision for loss on disaster

A provision for loss on disaster is provided for estimated future costs incurred for recovery from the Great East Japan Earthquake.

4. Foreign currency translation

Monetary receivables and payable denominated in foreign currencies are translated into Japanese yen using the spot exchange rate on the balance sheet date. Gain or loss resulting from translation is credited or charged to income.

5. Significant hedge accounting

(1) Method of hedge accounting

In principle, deferred hedge accounting is used. Translation at the contract rate is applied in accounting for forward foreign exchange contracts that meet specified conditions. Hedges that meet conditions for the special treatment of interest-rate swaps are accounted for separately.

(2) Hedging instruments and hedged items

・Hedging instruments

Forward foreign exchange contracts, currency options and interest-rate swaps

・Hedged items

Foreign currency-denominated claims and obligations, forecast transactions and debt

(3) Hedging policy

The Company enters into forward foreign exchange contracts and uses currency options with the objective of hedging the risk of exchange rate fluctuations in connection with its foreign currency-denominated claims and obligations. Additionally, the Company also enters into interest-rate swaps with the objective of hedging the risk of interest rate fluctuations relating to its debt.

(4) Methods for evaluating the effectiveness of hedging

The Company evaluates the effectiveness of its hedging practices by comparing the cash flow fluctuations for hedged items and hedging methods and using changes in both as a basis for its evaluation. However, evaluations concerning the effectiveness of forward foreign exchange contracts accounted for by the allocation method and interest rate swaps accounted for using special treatment are omitted.

6. Consumption tax

Amounts reflected in the non-consolidated financial statements are stated exclusive of consumption tax.

7. Changes in presentation of information

(Balance Sheets)

The item short-term loans was formerly included in other in current assets, but is presented separately from the fiscal year ended March 31, 2012 because the amount became material.

Short-term loans totaled ¥880 million for the fiscal year ended March 31, 2011.

8. Additional Information

(Application of Accounting Standard for Accounting Changes and Error Corrections, etc.)

The Company applied “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24, December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24, December 4, 2009) for accounting changes or error corrections from the beginning of the fiscal year.

(Notes on Non-consolidated Balance Sheets)

1. All amounts are rounded down to the nearest million yen.

2. Accumulated depreciation amount of property, plant and equipment	174,985 million yen
3. Guaranteed liabilities	11 million yen
4. Short-term credit for subsidiaries and affiliates	6,132 million yen
Short-term debts to subsidiaries and affiliates	4,303 million yen

(Notes on Non-consolidated Statements of Income)

1. All amounts are rounded down to the nearest million yen.
2. Transactions with subsidiaries and affiliates

Business transactions	13,514 million yen
Transactions other than business transactions	2,525 million yen

3. Gain on cancellation of shares due to absorption of a subsidiary
   Recognized due to merger by absorption with subsidiary Shionogi Engineering Service Co., Ltd.
4. Gain on sales of non-current assets

Land	587 million yen

5. Loss on disaster
   Expenses associated with the Great East Japan Earthquake

(Notes on Non-consolidated Statements of Changes in Net Assets)

Shares held as of March 31, 2012

Common stock	16,240,245 shares

(Notes on Tax Effects)

1. Principal components of deferred tax assets and deferred tax liabilities

	(Millions of yen) As of March 31, 2012
Deferred tax assets:	
Provision for bonuses	2,336
Accrued enterprise tax	870
Loss on revaluation of investments in securities	556
R&D expenses	4,291
Other	1,528
Total deferred tax assets	9,583
Deferred tax liabilities:	
Valuation difference on available-for-sale securities	(4,260)
Provision for retirement benefits	(4,731)
Reserve for advanced depreciation of noncurrent assets	(1,423)
Other	(2,438)
Total deferred tax liabilities	(12,853)
Net deferred tax liabilities	(3,270)

2. Adjustment of deferred tax assets and liabilities due to changes in the corporate tax rate
   Following the promulgation on December 2, 2011 of the “Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114 of 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake” (Act No. 117 of 2011), the corporate tax rate was reduced and the Special Reconstruction Corporation Tax was imposed for fiscal years beginning on or after April 1, 2012.
   Consequently, the effective statutory tax rate used to measure deferred tax assets and liabilities changed from 40.6 percent to 38.0 percent for temporary differences expected to be eliminated during fiscal years beginning in the period from April 1, 2012 to March 31, 2015. The rate will be changed to 35.6 percent for temporary differences expected to be eliminated during fiscal years beginning on or after April 1, 2015.
   As a result of these tax rate changes, as of March 31, 2012 net deferred tax liabilities after deducting deferred tax assets decreased ¥745 million, deferred income taxes decreased ¥152 million, deferred losses on hedges decreased ¥5 million, and net unrealized holding gains on securities increased ¥599 million.

(Notes on Amounts per Share)

1. Net assets per share	1,265.37 yen
2. Earnings per share	130.42 yen
3. Earnings per share (diluted)	130.40 yen

(Notes on Retirement Benefits)

The Company employs a cash balance plan (interest indexed annuity), retirement lump sum plan and defined contribution pension plan.

Additionally, when an employee retires, the Company on occasion pays a premium severance payout not subject to the actuarial calculation of its retirement benefit obligation in compliance with retirement benefit accounting methods.

1. Retirement benefit obligations

	(Millions of yen)
Retirement benefit obligations	(82,875)
Fair value of plan assets	78,628
Plan assets in excess of retirement benefit obligations	(4,247)
Unrecognized actuarial loss	21,487
Unrecognized prior service costs	(3,188)
Net retirement benefit obligation	14,052
Prepaid pension costs	22,809
Provision for retirement benefits	(8,757)

2. Retirement benefit expenses

	(Millions of yen)
Service cost	1,915
Interest cost	1,696
Expected return on plan assets	(2,140)
Amortization of actuarial loss	4,048
Amortization of prior service cost	(2,420)
Other	687
Retirement benefit expenses	3,787

3. Basis for calculation of retirement benefit obligation, etc.

Periodic allocation method for projected benefits	Straight-line attribution
Discount rate	2.0%
Expected rates of return on plan assets	2.8%
Amortized period of past service cost obligations	10 years (straight-line method)
Amortized period of actuarial loss	10 years (Expenses are paid from the following fiscal year using the straight-line method)

Copy of the Audit Report of Independent Accounting Auditors relating to the Consolidated Financial Statements

Accounting Auditor's Audit Report

May 8, 2012

The Board of Directors
Shionogi & Co., Ltd.

Ernst & Young ShinNihon LLC

Akihiko Masuda
Designated and Engagement Partner with limited liability (C.P.A.)

Hideki Maekawa
Designated and Engagement Partner with limited liability (C.P.A.)

Pursuant to Paragraph 4 of Article 444 of the Companies Act, we have audited the consolidated balance sheets, the consolidated statements of income and the consolidated statements of changes in net assets of Shionogi & Co., Ltd. and its consolidated subsidiaries (the "Company") for fiscal term from April 1, 2011 to March 31, 2012.

Management's Responsibility for the Consolidated Financial Statements
Company management is responsible for preparing and appropriately presenting the consolidated financial statements in accordance with generally accepted accounting standards in Japan. This responsibility includes establishing and maintaining internal controls deemed necessary by management to prepare and present the consolidated financial statements without material misstatement due to fraud or error.

Independent Accounting Auditor's Responsibility
Our responsibility is to express an independent opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted accounting standards in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

Our audit involves procedures conducted to obtain audit evidence supporting the amounts and disclosures in the consolidated financial statements. We choose and apply audit procedures in accordance with our judgment, based on our assessment of the risk of material misstatement in the consolidated financial statements due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of internal controls. However, we examine internal controls related to the preparation and appropriate presentation of the consolidated financial statements in the course of conducting risk assessment, in order to plan audit procedures appropriate to the circumstances. An audit includes examining the accounting policies adopted by management and their method of application, as well as the overall presentation of the consolidated financial statements, including evaluation of significant estimates made by management.

We believe that we have obtained sufficient and appropriate audit evidence to support our audit opinion.

Audit Opinion
In our opinion, the consolidated financial statements above present properly, in every material aspect, the financial position and results of operations of Shionogi Co., Ltd. and its consolidated subsidiaries for the relevant term of the consolidated financial statements in accordance with generally accepted auditing standards in Japan.

Interests in the Company
We have no interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Law.

Accounting Auditor's Audit Report

May 8, 2012

The Board of Directors
Shionogi & Co., Ltd.

Ernst & Young ShinNihon LLC

Akihiko Masuda
Designated and Engagement Partner with limited liability (C.P.A.)

Hideki Maekawa
Designated and Engagement Partner with limited liability (C.P.A.)

Pursuant to Item 1, Paragraph 2, Article 436 of the Companies Act, we have audited the balance sheets, the statements of income and the statements of changes in net assets of Shionogi & Co., Ltd. (the "Company") for the 146th fiscal term from April 1, 2011 to March 31, 2012.

Management's Responsibility for the Financial Statements

Company management is responsible for preparing and appropriately presenting the financial statements and the supplementary schedules in accordance with generally accepted accounting standards in Japan. This responsibility includes establishing and maintaining internal controls deemed necessary by management to prepare and present the financial statements and the supplementary schedules without material misstatement due to fraud or error.

Independent Accounting Auditor's Responsibility

Our responsibility is to express an independent opinion on the financial statements and the supplementary schedules based on our audit. We conducted our audit in accordance with generally accepted accounting standards in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements and the supplementary schedules are free of material misstatement.

Our audit involves procedures conducted to obtain audit evidence supporting the amounts and disclosures in the financial statements and the supplementary schedules. We choose and apply audit procedures in accordance with our judgment, based on our assessment of the risk of material misstatement in the financial statements and the supplementary schedules due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of internal controls. However, we examine internal controls related to the preparation and appropriate presentation of the financial statements and the supplementary schedules in the course of conducting risk assessment, in order to plan audit procedures appropriate to the circumstances. An audit includes examining the accounting policies adopted by management and their method of application, as well as the overall presentation of the financial statements and the supplementary schedules, including evaluation of significant estimates made by management.

We believe that we have obtained sufficient and appropriate audit evidence to support our audit opinion.

Audit Opinion

In our opinion, the financial statements and the supplementary schedules above present properly, in every material aspect, the financial position and results of operations of Shionogi Co., Ltd. for the relevant term of the financial statements in accordance with generally accepted auditing standards in Japan.

Interests in the Company

We have no interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Law.

Audit Report of the Board of Corporate Auditors

The Board of Corporate Auditors has compiled this Audit Report, upon due discussion, based on the audit report prepared by each Corporate Auditor regarding the execution of Directors' duties for the 146th fiscal period from April 1, 2011 to March 31, 2012 and submit our report as follows:

1. The Auditing Methods and Contents of Corporate Auditors and the Board of Corporate Auditors

The Board of the Corporate Auditors stipulated the auditing policies and share of assignment, etc., received reports regarding the situation and results of the audit from each Corporate Auditor and received reports regarding the situation of the business operations from the Directors and the Accounting Auditors, and, as required, received explanations.

Each Corporate Auditor, in accordance with the auditing standards, auditing policies and share of assignment, etc., stipulated by the Board of the Corporate Auditors, communicated with the Directors, the internal control section of the Company, and employees, endeavored to collect information and organize the environment for auditing, attended the Board of the Directors meetings and other material meetings, received reports regarding the situation of the business operations from the Directors and employees, as required, received explanations, perused the material documents on decisions and investigated the operations and assets at the Company's head office and other main offices.

In addition, we monitored and verified a system to assure appropriate execution of the Directors' duties in accordance with the related regulations and the Articles of Incorporation, the resolution of the Board of the Directors regarding a system to assure appropriate operations of the Company under Paragraph 1 and 3, Article 100 of the Enforcement Regulations of the Companies Act and the system established pursuant to such resolution (the Internal Control System).

With respect to the Internal Control regarding the financial reports, we received reports regarding the evaluation of such Internal Control and the situation of auditing from the Directors and Ernst & Young ShinNihon LLC, as required, received explanations.

With respect to the Company's subsidiaries, we communicated with and held opinion exchange meetings with the Directors and Corporate Auditors, etc., of subsidiaries, and, as required, received reports regarding the business operations from subsidiaries.

Based on the above mentioned method for auditing, we reviewed the business reports and supporting schedules for the relevant fiscal year.

Furthermore, we monitored and verified whether the Accounting Auditors maintain their independence and conduct the appropriate audit, received reports regarding the execution of their duties from the Accounting Auditors, and, as required, received explanations.

We also received notification that the "system to assure appropriate execution of the duties" (the item enumerated in each number of Article 131 of the Corporate Accounting Regulations Ordinance) was established in accordance with the "Quality Control Standards for Auditing" (adopted by the Business Accounting Deliberation Council on October 28, 2005), and as required received explanation.

Based on the above mentioned method, we reviewed the financial statements (the balance sheets, the statements of income, the statements of change in net assets and notes on financial statements) as well as the supporting schedules, and the consolidated financial statements (the consolidated balance sheets, the consolidated statements of income, the consolidated statements of changes in net assets and notes on consolidated financial statements) for the relevant fiscal year.

2. Result of Audit

(1) Results of audit on the business reports, etc.

1) The business reports and supporting schedules present properly the Company's affairs in accordance with the related regulations and the Articles of Incorporation of the Company.
2) No improper acts or serious matters in violation of the related regulations or the Articles of Incorporation in the course of execution of the Directors' duties have been observed.
3) The resolutions of the Board of the Directors regarding the Internal Control System are appropriate and there is nothing to point out with regard to the published content of the business reports and the execution of the Directors' duties concerning the Internal Control

System including the internal control for financial reporting.

(2) Results of audit on the financial statements and supporting schedules

The methods and results of the audit made by Ernst & Young ShinNihon LLC are appropriate.

(3) Results of audit on the consolidated financial statements

The methods and results of the audit made by Shin Nihon & Co. are appropriate.

May 8, 2012

Board of Auditors, Shionogi & Co., Ltd.

Standing Corporate Auditor: Mitsuaki Ohtani
Standing Corporate Auditor: Sachio Tokaji
Outside Corporate Auditor: Takeharu Nagata
Outside Corporate Auditor: Shinichi Yokoyama
Outside Corporate Auditor: Kenji Fukuda

REFERENCE MATERIALS CONCERNING THE EXERCISE OF VOTING RIGHTS

Proposals and Reference Matters

No. 1: Appropriation of Surplus

The Company's basic policy is to make an aggressive investment in future business development according to its growth to increase corporate value in the medium to long term perspective and to make stable increases in the dividend in accordance with fiscal year results. The Company also recognizes 35 percent as its reference index for payout ratio.

The Company intends to appropriate the internal reserves primarily towards capital demands for initiatives to generate future growth of global operations such as investments in R&D of new pharmaceutical products.

The Company, based on the above-mentioned principles, proposes to appropriate the retained earnings for the fiscal year ended March 31, 2011 as follows:

1. Year-end dividends

(1) Type of dividend assets

Cash

(2) Allocation of dividend assets to the shareholders and total amount of allocation

¥20 per share of common stock

Total amount of dividends: ¥6,697,918,400

(3) Effective date of dividends

June 28, 2012

Cash dividends per share for the fiscal year including the interim dividends would total ¥40.

2. Appropriation of other surplus

(1) Retained earnings account to be increased and the amount of increase

General reserves: ¥30,000,000,000

(2) Retained earnings account to be decreased and the amount of decrease

Retained earnings brought forward to the next period: ¥30,000,000,000

No. 2: Election of Five (5) Directors

The term of office of all six (6) Directors expires at the end of this Annual General Meeting of Shareholders.

Accordingly, the Company proposes the election of five (5) Directors.

Candidates for Director are as follows:

Candidate No.	Name (Date of birth)	Career summary, position within the Company and other major posts		Number of the Company's shares owned
1	Motozo Shiono (November 17, 1946)	January 1972: June 1984: April 1987: June 1987: June 1990: March 1996: August 1999: August 1999: April 2008:	Joined the Company Director of the Company General Manager, Accounting Department Managing Director of the Company Senior Managing Director of the Company General Manager, Agro., Vet. & Industrial Chem. Division President of the Company General Manager, Corporate Planning Division Chairman of the Boar of the Company (incumbent) (Major concurrent posts) Chief Director of The Cell Science Research Foundation	266,648
2	Isao Teshirogi (December 12, 1959)	April 1982: January 1999: June 2002: October 2002: April 2004: April 2006: April 2007: April 2008:	Joined the Company General Manager, Secretary Office and General Manager, Corporate Planning Department Director of the Company General Manager, Corporate Planning Department Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division Senior Executive Officer and Executive General Manager, Pharmaceutical Research & Development Division Senior Executive Officer President of the Company (incumbent)	9,850

3	Akio Nomura (February 8, 1936)	April 1958: Joined Osaka Gas Co., Ltd. June 1988: Director of Osaka Gas, Ltd. June 1989: Managing Director of Osaka Gas, Ltd. June 1991: Representative Director and Senior Managing Director of Osaka Gas, Ltd. June 1994: Representative Director and Vice President of Osaka Gas, Ltd. June 1998: Representative Director and President of Osaka Gas, Ltd. June 2000: Director of West Japan Railway Company (incumbent) June 2003: Representative Director and Chairman of Osaka Gas, Ltd. June 2008: Director of the Royal Hotel, Ltd. (incumbent) June 2009: Director of the Company (incumbent) (Major concurrent posts) Director of The Royal Hotel, Ltd.	0
4	Teppei Mogi (October 17, 1958)	April 1989: Registration of Attorney at Law April 1989: Joined Oh-Ebashi Law Offices April 1992: Service at Brussels Office of Cleary, Gottlieb, Steen & Hamilton LLP January 1993: Service at Rotterdam Office of De Brauw Blackstone Westbroek April 1994: Partner of Oh-Ebashi Law Offices August 2002: Partner of Oh-Ebashi LPC & Partners (incumbent) April 2004: Practitioner teacher, Graduate School of Law and Faculty in practical business at The Kwansei Gakuin University Law School (Full-time teacher) April 2005: Part-time instructor, Graduate School of Law, Kobe University (incumbent) June 2009: Director of the Company (incumbent) April 2010: Part-time instructor, Graduate School of Law and Faculty in practical business at The Kwansei Gakuin University Law School (incumbent) (Major concurrent posts) Partner of Oh-Ebashi LPC & Partners	0
5	New Candidate Katsuhiko Machida (June 22, 1943)	March 1969: Joined Hayakawa Electric Industry Co., Ltd., which changed its name to Sharp Corporation in January 1970 June 1987: Corporate Director, Sharp Corporation April 1990: Corporate Executive Director, Sharp Corporation October 1992: Corporate Senior Executive Director, Sharp Corporation June 1998: President, Sharp Corporation April 2007: Chairman, Sharp Corporation April 2008: Outside Director, Sekisui House Ltd. (incumbent) June 2008: Chairman and Chief Executive Officer, Sharp Corporation April 2010: Chairman, Sharp Corporation April 2012: Corporate Advisor, Sharp Corporation (incumbent) (Major concurrent posts) Corporate Advisor, Sharp Corporation Outside Director, Sekisui House Ltd.	0

Notes:

1. There are no special interests between the candidates and the Company.
2. Messrs. Akio Nomura, Teppei Mogi and Katsuhiko Machida are the candidates of outside directors stipulated in Article 2, Paragraph 3, Sub-paragraph 7 of the Enforcement Regulations of the Companies Act.
3. The Company proposes to reelect the candidate Mr. Akio Nomura as outside director to reflect his abundant experience and broad discernment as a member of top management in its management. Mr. Nomura's term of office as outside director will be three years as of the end of this Annual General Meeting of Shareholders.
4. The Company proposes to reelect the candidate Mr. Teppei Mogi as outside director to reflect his abundant experience and professional knowledge as Attorney at Law in its management and because Mr. Mogi has sufficiently fulfilled his role of outside director expected of him, even though he has not been involved in the management of a company before beyond his experience as outside director and outside auditor. Mr. Mogi's term of office as outside director will be three years as of the end of this Annual General Meeting of Shareholders.

5. The Company does not have an advisory contract with Oh-Ebashi LPC & Partners, where Director Teppei Mogi is a partner. However, the Company has remunerated Oh-Ebashi LPC & Partners for expert advice regarding certain specific cases involving international legal affairs.
6. In 2008, Mr. Teppei Mogi was appointed as outside director of Senba Kitcho Co., Ltd. as part of that company's corporate rehabilitation measures following a scandal in which the company falsely labeled food items in 2007. Although Mr. Mogi strove to build a compliance structure and to reform the company's culture, another scandal involving the company, which occurred prior to his appointment (reuse of food ingredients), was brought to light after he was appointed, forcing the company to cease operations.
7. The Company proposes to elect the candidate Mr. Katsuhiko Machida as outside director to reflect his abundant experience and broad discernment as a member of top management in its management.
8. The Company has submitted to Tokyo Stock Exchange Group, Inc. and Osaka Securities Exchange the independent directors/auditors notification, which states Messrs. Akio Nomura and Teppei Mogi are independent directors. If this proposal is approved and Messrs. Nomura and Mogi are appointed, both shall continue to serve as independent directors.
9. If this proposal is approved and Mr. Katsuhiko Machida is appointed as outside director, the Company will submit the independent director/auditor notification pursuant to the regulations of Tokyo Stock Exchange Group, Inc. and Osaka Securities Exchange.
10. Outline of the contract with outside directors to limit their liability are as follows:
    The Company has concluded contracts with Messrs. Akio Nomura and Teppei Mogi that limit their liability stipulated in Section 1, Article 423 of the Companies Act based upon Section 1, Article 427 of the Companies Act and Article 25 of the Articles of Incorporation of the Company. The limited amount provided in the contract is the minimum liability limit amount stipulated in Section 1, Article 425 of the Companies Act. In the event that the candidates, Messrs. Akio Nomura and Teppei Mogi are reelected as outside directors at this Annual General Meeting of Shareholders, the Company will continue to conclude such contracts with the candidates.
11. If this proposal is approved and Mr. Katsuhiko Machida is appointed as outside director, the Company will conclude a contract with him as described in item 10 above that limits his liability.

No. 3: Election of Two (2) Corporate Auditors

The term of office of corporate auditor Mitsuaki Ohtani and Shinichi Yokoyama will expire at the close of this General Meeting of Shareholders.

Accordingly, the Company proposes the election of two (2) corporate auditors.

The consent of the Board of Corporate Auditors has been obtained for submission of this proposal.

Candidates for the corporate auditors are as follows:

Candidate No.	Name (Date of birth)	Career summary, position and other major posts	Number of the Company's shares owned
1	Mitsuaki Ohtani (June 15, 1945)	April 1975: Joined the Company April 1997: General Manager, Discovery Research Laboratories I June 1998: Director of the Company June 1998: General Manager, Clinical Research Department and General Manager, Product Development Department April 2000: General Manager, Pharmaceutical Development Division and General Manager, Strategic Development Department July 2001: Executive General Manager, Pharmaceutical Research & Development Division, General Manager, Discovery Research Laboratories and General Manager, Strategic Development Department April 2002: Executive General Manager, Pharmaceutical Research & Development Division and General Manager, Discovery Research Laboratories June 2004: Corporate Auditor of the Company (incumbent)	4,000
2	Shinichi Yokoyama (September 10,1942)	April 1966: Joined Sumitomo Life Insurance Company July 1992: Director, Sumitomo Life Insurance Company April 1995: Managing Director, Sumitomo Life Insurance Company July 1998: Senior Managing Director, Sumitomo Life Insurance Company April 1999: Representative Director and Senior Managing Director, Sumitomo Life Insurance Company April 2000: Deputy President, Sumitomo Life Insurance Company July 2001: President and Chief Executive Officer, Sumitomo Life Insurance Company June 2003: Corporate Auditor, NEC Corporation July 2007: Chairman, Sumitomo Life Insurance Company (incumbent) June 2008: Corporate Auditor of the Company (incumbent) June 2010: Outside Director, Sumitomo Chemical Co., Ltd. (incumbent) (Major concurrent posts) Chairman, Sumitomo Life Insurance Company Outside Corporate Auditor, Sumitomo Chemical Co., Ltd.	0

Notes:

1. There are no special interests between the candidates and the Company.
2. Mr. Shinichi Yokoyama is a candidate for outside corporate auditor as stipulated in Article 2, Paragraph 3, Sub-paragraph 8 of the Enforcement Regulations of the Companies Act.
3. Mr. Shinichi Yokoyama has extensive management experience and knowledge. He has been a member of the Board of Directors of Sumitomo Life Insurance Company for many years, and his experience includes successive terms as an outside corporate auditor at NEC Corporation and Sumitomo Chemical Co., Ltd. Since his election as an outside corporate auditor of the Company in June 2008, he has demonstrated his grasp of his duties at the Company as a corporate auditor committed to an objective perspective through his pertinent proposals regarding directors' management decisions and execution of duties. The Company therefore believes that Mr. Shinichi Yokoyama is well qualified to serve as an outside corporate auditor and proposes to reelect the candidate.
   Mr. Shinichi Yokoyama's term of office as outside corporate auditor will be four years as of the end of this Annual General Meeting of Shareholders.
4. Sumitomo Life Insurance Company, where Mr. Shinichi Yokoyama serves as the chairman of the board and

representative director, held 5.55 percent of the Company's stock and ¥7.0 billion of the Company's debt as of March 31, 2012. However, these are nominal issues because the Company's equity ratio was 65.9 percent and debt represented 1.3 percent of consolidated total assets (4.0 percent of consolidated total liabilities) as of March 31, 2012.

5. The Company has concluded a contract with Mr. Shinichi Yokoyama limiting his liability stipulated in Section 1, Article 423 of the Companies Act based upon Section 1, Article 427 of the Companies Act and Article 32 of the Articles of Incorporation of the Company. The limited amount provided in the contract is the minimum amount stipulated in Section 1, Article 425 of the Companies Act. In the event that Mr. Shinichi Yokoyama is reelected as an outside corporate auditor at this Annual General Meeting of Shareholders, the Company will continue to conclude such contract with the candidate.

No. 4: Payment of Bonuses to Directors

Considering the results of the Company's business for the fiscal year ended March 31, 2012, the Company proposes to pay the following bonuses to the three (3) directors (excluding the two (2) outside directors) who were in office as of the end of the fiscal year ended March 31, 2012:

For directors' bonuses: ¥25,600,000

The Company also proposes to entrust the Board of the Directors to decide the amount of the bonuses for each director.

【Procedures on Exercise of Voting Rights through the Internet etc.】

1. Notice to Internet users

If you wish to exercise your voting rights through the Internet, please do so after taking the time to read and to fully understand the following:

(1) To exercise your voting rights through the Internet, you must use the following voting service website designated by the Company. Please note that you are also able to access and use this website for exercising voting rights with a mobile phone.

【Voting Service Website】 http://www.webdk.net

(2) To exercise your voting rights through the Internet, please register your approval or disapproval of each proposition by using the code and password for the exercise of voting rights indicated in the Proxy Card enclosed herewith and following the directions on the screen.

(3) Although it is acceptable to exercise voting rights through the Internet until 5:00 P.M.*, Tuesday, June 26, 2012, please exercise your voting rights as early as possible to assist us with compiling the results of the voting.

(4) If you exercise your voting rights both in writing and through the Internet, we will only accept the exercise of your voting rights through the Internet.

(5) If you exercise your voting rights more than once through the Internet, we will only accept the last exercise of your voting rights as valid.

(6) The dial-up access fee to providers, telecommunications fee to telecommunications carriers and other fees for the usage of the website for exercising voting rights shall be borne by the shareholder.

【System Conditions to Exercise Voting Rights through the Internet】

To exercise your voting rights through the Internet, you will need to have the following systems:

① Internet access;

② For voting via personal computer:
Microsoft® Internet Explorer 6.0 or greater, as Internet browser software, and appropriate hardware to use the required Internet browser software mentioned above;

③ For voting via mobile phone:
Mobile phones with 128-bit SSL encryption
Note: To ensure the security of your data transmission, the voting service website for mobile phones can be accessed only from mobile phones with 128-bit SSL encryption capability. Please note the voting service is not available for mobile phones that do not support 128-bit SSL encryption. It is also possible to use the full browser of some smartphones and other mobile phones to vote through the Internet, but please note that the voting service website cannot be accessed with certain mobile phone models.

(Microsoft® is the trademark of U.S. Microsoft Corporation, registered in the United States and other countries.)

【Reference Regarding Exercise of Voting Rights through the Internet】

Please call the following number if you have any questions relating to exercise of voting rights through the Internet.

Shareholder Registrar	**Sumitomo Mitsui Trust Bank, Limited** **Stock Transfer Agency Department**
【Exclusive Line】	**0120-186-417 (9:00 A.M. – 9:00 P.M. *, toll free)**
<Request for Forms or other inquiries, etc.>	**0120-176-417 (9:00 A.M. – 5:00 P.M.*, toll free)**

***Japan Standard Time**

2. To Institutional investors

For management and trust banks or other nominee shareholders (including standing proxies), the Electronic Voting Platform operated by Investor Communication Japan, Inc. (ICJ, Inc.), a joint venture instituted by Tokyo Stock Exchange, Inc., etc. is available as another online voting method for the exercise of voting rights pertaining to the Annual General Meeting of Shareholders, in addition to the method of voting through the Internet as described above, subject to the prior application for use to ICJ, Inc.